

RATLOU MUNICIPALITY



APPROVAL OF BUDGET POLICY

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APPROVAL OF BUDGET POLICY

1. OBJECT OF POLICY

- 1.1 The object of this policy is to ensure sound and sustainable management of the budgetary approval process according to norms and standards of the Act, which also forms the basis of this policy and is required in terms of s.160(6) of the Constitution and S.11(3)(h) and (m) of the MSA.
- 1.2 The municipality derives its legislative and executive authority to prepare, approve and implement its budget in terms of s.11(3)(h) & (i) of the MSA, which includes the imposing and recovery of rates, taxes, levies, duties, service fees and surcharges on fees.

2. APPROPRIATION OF FUNDS FOR EXPENDITURE

- 2.1 The municipality may, except where otherwise provided for in the Act and its regulations, incur expenditure only in terms of an approved budget; and within the limits of the amounts appropriated for the different votes in an approved budget.
- 2.2 All the departments of the municipality must adhere strictly to the stipulations in para 2.1.

3. ANNUAL BUDGET

- 3.1 The Council must consider and approve an annual budget for the municipality for each financial year at least 30 days before the start of that year as required by s.16(1) of the Act, namely before 31 May of each year. The mayor must table the draft annual before 01 April of each year as required by s.16(2) of the Act.
- 3.2 An annual budget-
 - 3.2.1 is approved by the adoption by the council of a resolution referred to in para. 5.3.1.1; and
 - 3.2.2 must be approved together with the adoption of resolutions as may be necessary-
 - 3.2.2.1 imposing any municipal tax for the budget year;
 - 3.2.2.2 setting any municipal tariffs for the budget year;
 - 3.2.2.3 approving measurable performance objectives for revenue from each source and for each vote in the budget;

- 3.2.2.4 approving any changes to the municipality's integrated development plan; and
- 3.2.2.5 approving any changes to the municipality's budget related policies.
- 3.3 The accounting officer of a municipality must submit the approved annual budget to the National Treasury and the North West Provincial Treasury.

4. CONTENTS OF ANNUAL BUDGET AND SUPPORTING DOCUMENTS

- 4.1 The draft annual budget must be scheduled in the following format to comply with s.17 of the Act, setting out –
 - 4.1.1 realistic anticipated revenue for the budget year from each revenue source;
 - 4.1.2 appropriate expenditure for the budget year under the different votes of the municipality;
 - 4.1.3 indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
 - 4.1.4 estimated revenue and expenditure by vote for the current year;
 - 4.1.5 actual revenue and expenditure by vote for the financial year preceding the current year; and
 - 4.1.5 a statement containing any other information required by s.215(3) of the Constitution or as may be prescribed.
- 4.2 Requirements set out in s.215(3) of the Constitution that a budget must contain are –
 - 4.2.1 estimates of revenue and expenditure, differentiating between capital and current expenditure;
 - 4.2.2 proposals for financing any anticipated deficit for the period to which they apply; and
an indication of intentions regarding borrowing and other forms of public liability that will increase public debt during the ensuing year.
- 4.3 The draft annual budget must be accompanied by the following documents:
 - 4.3.1 Draft resolutions-
 - 4.3.1.1 approving the budget of the municipality;
 - 4.3.1.2 imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and

- 4.3.1.3 approving any other matter that may be prescribed;
- 4.3.2 measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;
- 4.3.3 a projection of cash flow for the budget year by revenue source, broken down per month;
- 4.3.4 any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;
- 4.3.5 any proposed amendments to the budget-related policies of the municipality;
- 4.3.6 particulars of the municipality's investments;
- 4.3.7 any prescribed budget information on municipal entities under the sole or shared control of the municipality;
- 4.3.8 particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;
- 4.3.9 particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;
- 4.3.10 particulars of any proposed allocations or grants by the municipality to-
 - 4.3.10.1 other municipalities;
 - 4.3.10.2 any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;
 - 4.3.10.3 any other organs of state;
 - 4.3.10.4 any organisations or bodies referred to in s.67(1) of the Act;
- 4.3.11 the proposed cost to the municipality for the budget year of the salary, allowances and benefits of-
 - 4.3.11.1 each political office-bearer of the municipality;
 - 4.3.11.2 councillors of the municipality; and
 - 5.3.11.3 the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;
- 4.3.12 any other supporting documentation as may be prescribed.

5. HOW EXPENDITURE MAY BE FUNDED

- 5.1 In terms of the Act, an annual budget may only be funded from –
 - 5.1.1 realistically anticipated revenues to be collected;
 - 5.1.2 cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
 - 5.1.3 borrowed funds, but only for the capital budget not the operational budget.
- 5.4 Revenue projection in the budget must be realistic, taking the following factors into account –
 - 5.4.1 projected revenue for the current year based on collection levels to date; and
 - 5.4.2 actual revenue collected in previous financial years.

6. CAPITAL PROJECTS

- 6.1 In terms of s.19 of the Act, a municipality may spend money on a capital project only if-
 - 6.1.1 the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget;
 - 6.1.2 the project, including the total cost, has been approved by the Mayoral Committee;
 - 6.1.3 section 33 of the Act has been complied with, to the extent that that section may be applicable to the project; and
 - 6.1.4 the sources of funding have been considered, are available and have not been committed for any other purposes.
- 6.2 Before approving a capital project in terms of para. **7.2**, the council of a municipality must consider-
 - 6.2.1 the projected cost covering all financial years until the project is operational; and
 - 6.2.2 the future operational costs and revenue on the project, including municipal tax and tariff implications.
- 6.3 A municipal council may in terms of para. **7.2** approve capital projects below a prescribed value either individually or as part of a consolidated capital programme.

7. BUDGET PREPARATION PROCESS

7. On behalf of the Mayor, the Accounting Officer must in terms of s.21 of the Act -
 - 7.1 co-ordinate the processes for preparing the annual budget and for reviewing the municipality's integrated development plan and budget-related policies to ensure that the tabled budget and any revisions of the integrated development plan and budget-related policies are mutually consistent and credible;
 - 7.2 at least 10 months before the start of the budget year, namely before 01 September, table in the municipal council a time schedule outlining key deadlines for-
 - 7.2.1 the preparation, tabling and approval of the annual budget;
 - 7.2.2 the annual review of-
 - 7.2.2.1 the integrated development plan in terms of section 34 of the MSA; and
 - 7.2.2.2 the budget-related policies;
 - 7.2.3 the tabling and adoption of any amendments to the integrated development plan and the budget-related policies; and
 - 7.2.4 any consultative processes forming part of the processes referred to in paragraphs (10.2.1), (10.2.2) and (10.2.3).
 - 7.3 When preparing the annual budget, the Mayor, in consultation with the Accounting Officer and Chief Financial Officer must-
 - 7.3.1 take into account the municipality's integrated development plan;
 - 7.3.2 take all reasonable steps to ensure that the municipality revises the integrated development plan in terms of section 34 of the MSA, taking into account realistic revenue and expenditure projections for future years;
 - 7.3.3 take into account the national budget, the relevant provincial budget, the national government's fiscal and macro-economic policy, the annual Division of Revenue Act and any agreements reached in the Budget Forum;
 - 7.3.4 consult-
 - 7.3.4.1 the relevant district municipality and all other local municipalities within the area of the district municipality, if the municipality is a local municipality;

- 7.4.2 the relevant provincial treasury, and when requested, the National Treasury; and
- 7.4.3 any national or provincial organs of state, as may be prescribed; and
- 7.5 provide, on request, any information relating to the budget-
- 7.5.1 to the National Treasury; and
- 7.5.2 subject to any limitations that may be prescribed, to-
- 7.5.2.1 the national departments responsible for water, sanitation, electricity and any other service as may be prescribed;
- 7.5.2.2 any other national and provincial organs of state, as may be prescribed; and
- 7.5.2.3 another municipality affected by the budget.

8. STRATEGIES TO BE TAKEN INTO ACCOUNT FOR THE COMPILATION OF THE BUDGET

- 8. Strategies that must also be taken into account when the Annual Budget is compiled are –
- 8.1 The needs and requirements of the municipality's IDP;
- 8.2 The revision of the valuation roll of the municipality at least every two years to fully utilize the revenue to be derived from municipal rates, especially where sharp rises in the market values of properties are experienced;
- 8.3 The needs of the indigent communities of the municipality in terms of the indigent support policy;
- 8.4 The absolute minimum operational requirements of the various municipal departments to render an efficient, economical yet sustainable service to the community;
- 8.5 The concept of developmental local government to comply with the State's requirements in this regard;
- 8.6 A reasonable increase in tariffs, fees, levies, charges etc., to adequately maintain the standard of municipal services the municipality has decided to render to its community.

9. PUBLICATION OF ANNUAL BUDGETS

- 9.1 Immediately after an annual budget has been tabled in a municipal council, the accounting officer of the municipality must-

9.1.1 in accordance with the MSA-

9.1.1.1 make public the annual budget and the documents referred to in para. 5.3.1; and

9.1.1.2 invite the local community to submit representations in connection with the budget; and

9.2 submit the annual budget-

9.2.1 in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and

9.2.2 in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.

10. CONSULTATIONS ON BUDGET

10.1 When the annual budget has been tabled, the municipal council must consider any views of-

10.1.1 the local community; and

10.1.2 the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.

10.1.3 After considering all budget submissions, the council must give the mayor an opportunity-

10.1.3.1 to respond to the submissions; and

10.1.3.2 if necessary, to revise the budget and table amendments for consideration by the council.

10.2 Adherence to any guidelines that National Treasury may issue on the manner in which municipal councils should process their annual budgets, including guidelines on the formation of a committee of the council to consider the budget and to hold public hearings.

10.3 No guidelines issued in terms of 14.3 are binding on a municipal council unless adopted by the council.

10.4 In terms of s.20 of MSA the council must allow the general public to attend the meeting at which the draft budget is to be adopted and give any member of the local community the opportunity to address the Council on issues concerning the budget, should such a request be forthcoming.

11. ADJUSTMENT BUDGET

- 11.1 The municipality may revise an approved annual budget through an adjustments budget.
- 11.2 An adjustments budget-
 - 11.2.1 must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
 - 11.2.2 may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
 - 11.2.3 may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
 - 11.2.4 may authorise the utilisation of projected savings in one vote towards spending under another vote;
 - 11.2.5 may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;
 - 11.2.6 may correct any errors in the annual budget; and
 - 11.2.7 may provide for any other expenditure within a prescribed framework.
- 11.3 An adjustments budget must be in a similar format to the original budget.
- 11.4 Only the mayor may table an adjustments budget in the municipal council, but an adjustments budget in terms of s.28(2)(b) to (g) of the Act may only be tabled within certain prescribed limitations as to timing or frequency.
- 11.5 When an adjustments budget is tabled, it must be accompanied by-
 - 11.5.1 an explanation how the adjustments budget affects the annual budget;
 - 11.5.2 a motivation of any material changes to the annual budget;
 - 11.5.3 an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and

- 11.5.4 any other supporting documentation that may be prescribed.
- 11.6 Municipal taxes and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.
- 11.7 Paras. 13.1, 13.2 and 14.3 apply in respect of an adjustments budget, and in such application a reference in those sections to an annual budget must be read as a reference to an adjustments budget.

12. UNFORESEEN AND UNAVOIDABLE EXPENDITURE

- 12.1 The mayor may in an emergency or other exceptional circumstances authorise unforeseeable and unavoidable expenditure for which no provision was made in an approved budget.
- 12.2 Any such expenditure-
 - 12.2.1 must be in accordance with any framework that may be prescribed;
 - 12.2.2 may not exceed a prescribed percentage of the approved annual budget;
 - 12.2.3 must be reported by the mayor to the municipal council at its next meeting; and
 - 12.2.4 must be appropriated in an adjustments budget.
- 12.3 If such adjustments budget is not passed within 60 days after the expenditure was incurred, the expenditure is unauthorised and will be regarded as unauthorized, irregular or fruitless and wasteful expenditure.

13. UNSPENT FUNDS

The appropriation of funds in an annual or adjustments budget lapses to the extent that those funds are unspent at the end of the financial year to which the budget relates, except in the case of an appropriation for expenditure made for a period longer than that financial year in terms of section 16(3) of the Act.

14. SHIFTING OF FUNDS BETWEEN MULTI-YEAR APPROPRIATIONS

- 14.1 When funds for a capital programme are appropriated in terms of section 16(3) of the Act for more than one financial year, expenditure for that programme during a financial year may exceed the amount of that year's appropriation for that programme, provided that-

- 14.2 the increase does not exceed 20 per cent of that year's appropriation for the programme;
- 14.3 the increase is funded within the following year's appropriation for that programme;
- 14.4 the municipal manager certifies that-
 - 14.3.1 actual revenue for the financial year is expected to exceed the budgeted revenue; and
 - 14.3.2 sufficient funds are available for the increase without incurring further borrowing beyond the annual budget limit;
- 14.3 prior written approval is obtained from the mayor for the increase; and
- 14.4 the documents referred to in paragraphs 18.3 and 18.4 are submitted to the relevant provincial treasury and the Auditor-General.

15. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

- 15.1 A municipality may enter into a contract which will impose financial obligations on the municipality beyond a financial year, but if the contract will impose financial obligations on the municipality beyond the three years covered in the annual budget for that financial year, it may do so only if-
 - 15.1.1 the municipal manager, at least 60 days before the meeting of the municipal council at which the contract is to be approved has, in accordance with section 21A of the MSA-
 - 15.1.1.1 made public the draft contract and an information statement summarising the municipality's obligations in terms of the proposed contract; and
 - 15.1.1.2 invited the local community and other interested persons to submit to the municipality comments or representations in respect of the proposed contract; and
 - 15.1.1.3 has solicited the views and recommendations of-
 - 15.1.1.3.1 the National Treasury and the relevant provincial treasury;
 - 15.1.1.3.2 the national department responsible for local government; and
 - 15.1.1.3.3 if the contract involves the provision of water, sanitation, electricity, or any other service as may be prescribed, the responsible national department;
- 15.2 the municipal council has taken into account-

- 15.2.1 the municipality's projected financial obligations in terms of the proposed contract for each financial year covered by the contract;
 - 15.2.2 the impact of those financial obligations on the municipality's future municipal tariffs and revenue;
 - 15.2.3 any comments or representations on the proposed contract received from the local community and other interested persons;
 - 15.2.4 any written views and recommendations on the proposed contract by the National Treasury, the relevant provincial treasury, the national department responsible for local government and any national department referred to in paragraph 19.1;
- 15.3 the municipal council has adopted a resolution in which-
- 15.3.1 it determines that the municipality will secure a significant capital investment or will derive a significant financial economic or financial benefit from the contract;
 - 15.3.2 it approves the entire contract exactly as it is to be executed; and
 - 15.3.3 it authorises the municipal manager to sign the contract on behalf of the municipality.
- 15.4 The process set out in para. 19 does not apply to-
- 15.4.1 contracts for long-term debt regulated in terms of section 46(3) of the Act;
 - 15.4.2 employment contracts; or
 - 15.4.3 contracts-
 - 15.4.3.1 for categories of goods as may be prescribed; or
 - 15.4.3.2 in terms of which the financial obligation on the municipality is below a prescribed value; or a prescribed percentage of the municipality's approved budget for the year in which the contract is concluded.
- 15.5 All contracts referred to in para. 19 and all other contracts that impose a financial obligation on a municipality-
- 15.5.1 must be made available in their entirety to the municipal council; and
 - 15.5.2 may not be withheld from public scrutiny except as provided for in terms of the Promotion of Access to Information Act, 2000 (Act No. 2 of 2000).

- 15.5.3 This paragraph does not apply to contracts in respect of which the financial obligation on the municipality is below a prescribed value.

16. FAILURE TO APPROVE BUDGET

- 16.1 If the council fails to approve an annual budget, including revenue-raising measures necessary to give effect to the budget, the council must reconsider the budget and again vote on the budget, or on an amended version thereof, within seven days of the council meeting that failed to approve the budget.
- 16.2 The process provided for in para. 22.1 must be repeated until a budget, including revenue-raising measures necessary to give effect to the budget, is approved.
- 16.3 If the council has not approved an annual budget, including revenue-raising measures necessary to give effect to the budget, by the first day of the budget year, the mayor must immediately comply with section 55 of the Act.

17. CONSEQUENCES OF FAILURE TO APPROVE BUDGET

- 17.1 If by the start of the budget year a municipal council has not approved an annual budget or any revenue-raising measures necessary to give effect to the budget, the provincial executive of the relevant province must intervene in the municipality in terms of section 139(4) of the Constitution by taking any appropriate steps to ensure that the budget or those revenue-raising measures are approved, including dissolving the council and-
- 17.1.1 appointing an administrator until a newly elected council has been declared elected; and
- 17.1.2 approving a temporary budget or revenue-raising measures to provide for the continued functioning of the municipality.

18. NON-COMPLIANCE OF THE ACT RELATING TO BUDGETARY PROCEDURE

- 18.1 The mayor will, upon becoming aware of any impending non-compliance by the municipality of any provisions of the Act or any other legislation pertaining to the tabling or approval of an annual budget or compulsory consultation processes, inform the MEC for finance in the province, in writing, of such impending non-compliance in terms of s.27 of the Act.
- 18.2 If the impending non-compliance pertains to a time provision, except sect. 16(1) of the Act, the MEC for finance may, on application by the mayor and on good cause shown, extend any time limit or deadline

contained in that provision, provided that no such extension may compromise compliance with sect. 16(1) of the Act. An MEC for finance must-

- 18.2.1 exercise the power contained in the Act in accordance with a prescribed framework; and
 - 18.2.2 promptly notify the National Treasury, in writing, of any extensions given in terms of this subsection, together with the name of the municipality and the reasons.
- 18.3 The mayor must, upon becoming aware of any actual non-compliance by the municipality of the provisions of this Act relating to budget procedure, inform the council, the MEC for finance and the National Treasury, in writing, of-
- 18.3.1 such non-compliance; and
 - 18.3.2 any remedial or corrective measures the municipality intends to implement to avoid a recurrence.
- 18.4 Non-compliance by the municipality with a provision of this Act relating to the budget process or a provision in any legislation relating to the approval of a budget-related policy, does not affect the validity of an annual or adjustments budget.
- 18.5 The provincial executive may intervene in terms of the appropriate provision of section 139 of the Constitution if a municipality cannot or does not comply with a provision of this Act, including a provision relating to process in terms of s.27 of the Act.