

NYANDENI LOCAL MUNICIPALITY

2015/16



BUDGET & IDP POLICY

Budget Policy

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[1] Objective of the Budget Policy and Integrated Development Policy

This policy sets out the budgeting principles, which NyandeniLocalMunicipality will follow in preparing each annual budget, as well as the Integrated Development Planning process through which the municipality will prepare a strategic development plan, for a five-year period.

The Integrated Development Plan is the principal strategic planning instrument, which guides and informs all planning, budgeting, management and decision-making in the municipality.

[1.1] Application of the Policy

This policy shall apply to employees of NyandeniLocalMunicipality compiling budgets and Integrated Development Plans.

[1.2] Definitions

“accounting officer” - Means in relation to a municipality, means the municipal official referred to in section 60 of the Municipal Financial Management Act No. 56 of 2003; or in relation to a municipal entity, means the official of the entity referred to in section 93 of the Municipal Financial Management Act No. 56 of 2003 and includes a person acting as the accounting officer;

“allocation” - Means

- (a) a municipality’s share of the local government’s equitable share referred to in section 214(1) (a) of the Constitution;
- (b) an allocation of money to a municipality in terms of section 214(1) (c) of the Constitution;
- (c) an allocation of money to a municipality in terms of a provincial budget; or
- (d) any other allocation of money to a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction

“Annual Division of Revenue Act” - means the Act of Parliament which must be enacted annually in terms of section 214 (1) of the Constitution

“annual report”, in relation to a municipality or municipal entity, means an annual report contemplated in section 121 of the Municipal Financial Management Act No. 56 of 2003

“approved budget” - means an annual budget

- (a) approved by a municipal council; or
- (b) approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution, and includes such an annual budget as revised by an adjustments budget in terms of section 28 of the Municipal Financial Management Act No. 56 of 2003

“Auditor-General” - means the person appointed as Auditor-General in terms of section 193 of the Constitution, and includes a person:

- (a) acting as the Auditor-General;
- (b) acting in terms of a delegation by the Auditor-General; or
- (c) designated by the Auditor-General to exercise a power or perform a duty of the Auditor-General

“basic municipal service” - means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment

“budget-related policy” - means a policy of a municipality affecting or affected by the annual budget of the municipality, including:

- (a) the tariffs policy which the municipality must adopt in terms of section 74 of the Municipal Systems Act;
- (b) the rates policy which the municipality must adopt in terms of legislation regulating municipal property rates; or
- (c) the credit control and debt collection policy which the municipality must adopt in terms of section 96 of the Municipal Systems Act

“budget year” - means the financial year for which an annual budget is to be approved in terms of section 16(1) of the Municipal Financial Management Act No. 56 of 2003

“chief financial officer” - means a person designated in terms of section 80(2) (a) of the Municipal Financial Management Act No. 56 of 2003

“councilor” - means a member of a municipal council

“creditor” - in relation to a municipality, means a person to whom money is owing by the municipality

“current year” - means the financial year which has already commenced, but not yet ended

“debt” – means:

- (a) a monetary liability or obligation created by a financing agreement, note, debenture, bond or overdraft, or by the issuance of municipal debt instruments; or
- (b) a contingent liability such as that created by guaranteeing a monetary liability or obligation of another

“delegation” – means in relation to a duty, includes an instruction or request to perform or to assist in performing the duty;

“financial recovery plan” - means a plan prepared in terms of section 141 of Municipal Financial Management Act No. 56 of 2003

“financial statements” – means in relation to municipality or municipal entity, means statements consisting of at least:

- (a) a statement of financial position
- (b) a statement of financial performance
- (c) a cash-flow statement
- (d) any other statements that may be prescribed; and
- (e) any notes to these statements

“financial year” - means a year ending on 30 June

“financing agreement” - includes any loan agreement, lease, installment purchase contract or hire purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time

“fruitless and wasteful expenditure” - means expenditure that was made in vain and would have been avoided had reasonable care been exercised

“**Head**”, in relation to the Municipal Finance Recovery Service, means a person:

- (a) appointed in terms of section 159 of the Municipal Financial Management Act No. 56 of 2003 as the Head of the Service; or
- (b) acting as the Head of the Service

“**irregular expenditure**” - in relation to a municipality or municipal entity, means:

- (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170
- (b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- (d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality’s by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of “unauthorised expenditure”

“**integrated development plan**” - means a plan envisaged in section 25 of the Municipal System Act No 32 of 2000

“**investment**”, in relation to funds of a municipality, means:

- (a) the placing on deposit of funds of a municipality with a financial institution; or
- (b) the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds

“**lender**”, in relation to a municipality, means a person who provides debt finance to a municipality

“**local community**” has the meaning assigned to it in section 1 of the Municipal Systems Act

“**local municipality**” - means a municipality that shares municipal executive and legislative authority in its area with a district municipality within whose area it falls, and which is described in section 155(1) of the Constitution as a category B municipality

“**long-term debt**” - means debt repayable over a period exceeding one year

“**mayor**” - a municipality with an executive committee, means the councilor elected as the mayor of the municipality in terms of section 48 of the Municipal Structures Act

“**MEC for finance**” - means the member of the Executive Council of a province who is responsible for finance in that province

“**MEC for local government**” - means the member of the Executive Council of a province who is responsible for local government in that province

“**Minister**” - means the Cabinet member responsible for finance

“**month**” - means one of the 12 months of a calendar year

“**multi-jurisdictional service utility**” has the meaning assigned to it in section 1 of the Municipal Systems Act

“**municipal council**” or “**council**” - means the council of a municipality referred to in section 18 of the Municipal Structures Act

“**municipal debt instrument**” - means any note, bond, debenture or other evidence of indebtedness issued by a municipality, including dematerialised or electronic evidence of indebtedness intended to be used in trade

“**Municipal Financial Recovery Service**” - means the Municipal Financial Recovery Service established by section 157

“**municipality**”:

- (a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
- (b) when referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998)

“**municipal manager**” - means a person appointed in terms of section 82(1)(a) or (b) of the Municipal Structures Act

“**municipal service**” has the meaning assigned to it in section 1 of the Municipal Systems Act

“**Municipal Structures Act**” - means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998)

“**Municipal Systems Act**” - means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000)

“**municipal tariff**” - means a tariff for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff

“**municipal tax**” - means property rates or other taxes, levies or duties that a municipality may impose

“**National Treasury**” - means the National Treasury established by section 5 of the Public Finance Management Act No. 56 of 2003

“**official**”, in relation to a municipality or municipal entity, means:

- (a) an employee of a municipality or municipal entity;
- (b) a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
- (c) a person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee

“organised local government” - means an organisation recognised in terms of section 2(1) of the Organised Local Government Act, 1997 (Act No. 52 of 1997), to represent local government nationally or provincially

“overspending” – means:

- (a) in relation to the budget of a municipality, means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year’s budget for its operational or capital expenditure, as the case may be
- (b) in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or
- (c) in relation to expenditure under section 26, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section

“parent municipality” - has the meaning assigned to it in section 1 of the Municipal Systems Act

“past financial year” - means the financial year preceding the current year;

“political office-bearer”, in relation to a municipality, means:

- (a) the speaker, executive mayor, deputy executive mayor, mayor, deputy mayor or a member of the executive or mayoral committee of a municipality elected, designated or appointed in terms of a specific provision of the Municipal Structures Act; or
- (b) a councilor referred to in section 57(1) of the Municipal Finance Management Act No. 56 of 2003

“political structure”, in relation to a municipality, means:

- (a) the council of a municipality; or
- (b) any committee or other collective structure of a municipality elected, designated or appointed in terms of a specific provision of the Municipal Structures Act

“prescribe” - means prescribe by regulation in terms of section 168

“primary bank account” - means a bank account referred to in section 8(1)

“private company” - means a company referred to in sections 19 and 20 of the Companies Act, 1973 (Act No. 61 of 1973)

“provincial department” - means a department listed in Schedule 2 of the Public Service Act, 1994 (Proclamation No. 103 of 1994), which falls within a provincial administration listed in Schedule 1 to that Act

“provincial treasury” - means a treasury established in terms of section 17 of the Public Finance Management Act

“Public Finance Management Act” - means the Public Finance Management Act, 1999 (Act No. 1 of 1999)

“quarter” means any of the following periods in a financial year:

- (a) 1 July to 30 September;
- (b) 1 October to 31 December;
- (c) 1 January to 31 March; or
- (d) 1 April to 30 June;

“senior manager”:

- (a) in relation to a municipality, means a manager referred to in section 56 of the Municipal Systems Act; or
- (b) in relation to a municipal entity, means a manager directly accountable to the chief executive officer of the entity

“security” - means any mechanism intended to secure the interest of a lender or investor, and includes any of the mechanisms mentioned in section 48(2)

“service delivery agreement” has the meaning assigned to it in section 1 of the Municipal Systems Act

“service delivery and budget implementation plan” - means a detailed plan approved by the mayor of a municipality in terms of section 53(1) (c) (ii) for implementing the municipality’s delivery of municipal services and its annual budget, and which must indicate:

- (a) projections for each month of:
 - (i) revenue to be collected, by source; and
 - (ii) operational and capital expenditure, by vote;
- (b) service delivery targets and performance indicators for each quarter; and
- (c) any other matters that may be prescribed, and includes any revisions of such plan by the mayor in terms of section 54(1) (c) of the Municipal Financial Management Act No. 56 of 2003

“service utility” has the meaning assigned to it in section 1 of the Municipal Systems Act

“shared control”, in relation to a municipal entity, means the rights and powers a municipality has over a municipal entity which is:

- (a) a private company in which effective control as defined in section 1 of the Municipal Systems Act is vested in that municipality and one or more other municipalities collectively; or
- (b) a multi-jurisdictional service utility in which that municipality participates

“short-term debt” – means debt repayable over a period not exceeding one year

“sole control”, in relation to a municipal entity, means the rights and powers a municipality has over a municipal entity which is:

- (a) a private company in which effective control as defined in section 1 of the Municipal Systems Act is vested in that municipality alone; or
- (b) a service utility established by the municipality

“standards of generally recognised accounting practice” - means an accounting practice complying with standards applicable to municipalities or municipal entities and issued in terms of Chapter 11 of the Public Finance Management Act

“unauthorised expenditure”, in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Financial Management Act No. 56 of 2003, and includes:

- (a) overspending of the total amount appropriated in the municipality’s approved budget
- (b) overspending of the total amount appropriated for a vote in the approved budget; covered by the vote
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose

- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of “allocation” otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the municipality otherwise than in accordance with this Act

“vote” means:

- (a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
- (b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

[2] Budgeting Principles

[2.1] Capital Budgets

Except in so far as capital projects represent a contractual commitment to the municipality extending over more than one financial year, the annual capital budget shall be prepared from a zero base. The capital budget component of the annual or adjustments budget shall only be approved by the Council if it has been properly balanced, that is, if the sources of finance which are realistically envisaged to fund the budget equal the proposed capital expenses.

Before approving the capital budget component of the annual or adjustments budget, the Council shall consider the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets, and any other ordinary operational expenses associated with any item on such capital budget. In addition, the Council shall consider the likely impact of such operation expenses – net of any revenues expected to be generated by such item – on future property rates and service tariffs.

The Council shall establish an asset financing reserve for the purpose of financing capital projects and the acquisition of capital assets. Such reserve shall be established from the following sources of revenue

- unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes
- interest on the investments of the asset financing reserve, appropriated in terms of the banking and investments policy
- further amounts appropriated as contributions in each annual or adjustments budget; and
- net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy

[2.2] Operational Budgets

Each annual and adjustments budget shall reflect realistic excess, however nominal, of current revenues over expenses. Any unappropriated surplus from previous financial years, even if fully cash- backed, shall not be used to balance any annual or adjustments budget, but shall be appropriated, as far as it is not required to finance the payment of operating creditors or for other operational purposes, to the municipality’s asset financing reserve.

An impending operating deficit shall be made good in an adjustments budget, but if an operating deficit arises at the end of a financial year, notwithstanding the precautionary measures adopted by the Council, such deficit shall immediately be made good in the annual or adjustments budget for the ensuing financial year, and shall not be offset against any unappropriated surplus carried forward from preceding financial years.

The municipality shall establish and maintain a provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

The municipality shall establish and maintain a provision for bad debts in accordance with its rates and tariffs policies, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

The municipality shall establish and maintain a provision for the obsolescence and deterioration of stock in accordance with its stores management policy, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

All expenses, including depreciation expenses, shall be cash-funded. The cash received in respect of depreciation expenses on fixed assets financed from external borrowings shall be transferred to the investments created to redeem such borrowings. Finance charges payable by the municipality shall be apportioned between departments or votes on the basis of the proportion at the last balance sheet date of the carrying value of the fixed assets belonging to such department or vote to the aggregate carrying value of all fixed assets in the municipality.

However, where it is the Council's policy to raise external loans only for the financing of fixed assets in specified Council services, finance charges shall be charged to or apportioned only between the departments or votes relating to such services. Depreciation and finance charges together shall not exceed 20% of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget.

The allocation of interest earned on the municipality's investments shall be budgeted for in terms of the banking and investment policy.

The municipality shall adequately provide in each annual and adjustments budget for the maintenance of its fixed assets in accordance with its fixed asset management and accounting policy. At least 5% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.

In the preparation of the draft operating budget component of the annual budget, the allowable budgetary increment shall relate to the total amount (excluding capital and IDP projects) provided for each budget vote, and the head of the department, service or function concerned shall have the right to allocate the total budgeted amount to the line-items within such vote, except in so far as the line-item provisions relate to matters determined by the Chief Financial Officer in terms of the municipality's approved policies and contractual and statutory commitments (for example, depreciation charges, finance charges, insurance costs, contribution to skills development levies payable).

Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits shall be separately prepared, and shall ideally not exceed 35% of the aggregate operating budget component of the annual or adjustments budget. For purposes of applying this principle, the remuneration of political office bearers and other Councilors shall be excluded from this limit.

The head of the department, service or function to which each budget vote relates shall justify the allocation of the aggregate budget for such vote to the various line-items within the vote to the portfolio committee responsible for the department, service or function concerned. In motivating the allocations made to and within the vote, the head of department, service or function concerned shall provide the relevant portfolio committee with appropriate quarterly performance indicators and service delivery targets pertaining to the budget.

Such indicators and targets shall be prepared with the approval of the Municipal Manager and the Mayor.

When considering the draft annual budget, the Council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households in the municipal area. The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.

Because households have no mechanism for passing on such increases to other parties, but must fully absorb the increases concerned, the Council shall ensure that the average additional impact of such increases is not more linked than the relevant increase in the consumer price index.

[2.3] Adjustment Budgets

In terms of section 28 (2) of the Municipal Finance Management Act, No. 56 of 2003 an adjustments budget:

- must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
- may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise and accelerate programmes already budgeted for;
- may, within a prescribed framework, authorize unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
- may authorize the utilization of projected savings in one vote towards spending under another vote;
- may authorize 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 rollovers when the annual budget for the current year was approved by the council;
- may correct any errors in the annual budget; and
- may provide for any other expenditure within a prescribed framework.

In terms of section 28 (5) of the Municipal Finance Management Act, No 56 of 2003, when an adjustments budget is tabled, it must be accompanied by:

- an explanation how the adjustments budget affects the annual budget;
- a motivation of any material changes to the annual budget;
- an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and
- any other supporting documentation that may be prescribed.

The Municipal Manager will annually in terms of section 79 of the Municipal Finance Management Act, No 56 of 2003, delegate or confirm, vary or revoke existing delegations, to senior managers the responsibilities of a vote / department / functional area, referred to in section 78 of the Municipal Finance Management Act, No 56 of 2003. Senior managers to whom a vote / department / functional area have been delegated must immediately report to the Chief Financial Officer the need of an adjustments budget required in terms of section 28 (2) of the Municipal Finance Management Act, No 56 of 2003 and are responsible for the requirements referred to in terms of section 28 (5) of the Act.

The Chief Financial Officer would on a monthly basis monitor and report to senior managers the expenditure and revenue collected per vote / department / functional area and informs the Municipal Manager of any request by senior managers or need for an adjustments budget.

The Municipal Manager will in terms of section 72 (3) of the Municipal Finance Management Act, No 56 of 2003, with revision of the mid-year budget and on recommendation of the Chief Financial Officer recommend to the Mayor and Executive committee the necessity of an adjustments budget. The adjustments budget would then in consultation with senior managers be prepared by the Chief Financial Officer. Unless approved by the Municipal Manager an adjustments budget would be prepared only once per financial year.

Adjustments within a vote / department / functional area, not exceeding total expenditure approved in the annual budget, are not required to be tabled to the council by the Mayor. Such adjustments between sub votes (Personnel expenditure, General expenditure, Repairs & maintenance, Loan Commitments, Contribution to capital and Contribution to funds) may be done once a year with the approval of the Executive committee recommended by the Municipal Manager and Chief Financial Officer. Procedures

required for an adjustments budget should be followed. Adjustments between line items in any sub vote not exceeding the total allocation of that sub vote may be done once a year with the approval of the Municipal Manager and Chief Financial Officer.

[3] Duties and Functions

[3.1] Duties and Functions of the Mayor

- Table the annual budget at a council meeting at least 90 days before the start of the budget year in order to enable the council to approve an annual budget before the start of the financial year.
- The mayor is responsible for the co-ordination of the process for preparing the annual budget and for reviewing the municipality's integrated development plan (IDP) and budget-related policies, thus ensuring that the tabled budget and any revisions of the integrated development plan and budget-related policies are mutually consistent and credible.
- If a municipality 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 report the matter to the provincial MEC for local government.
- The mayor may then also recommend an appropriate provincial intervention to the MEC in terms of the above according to section 139 of the Constitution.
- The mayor must table a time schedule outlining key budget-process deadlines no less than 10 months before the start of the budget year. The schedule must outline the following:
 - i) The preparation, tabling and approval of the annual budget
 - ii) The annual review of:
 - The integrated development plan in terms of section 34 of the Municipal Systems Act
 - The budget-related policies
 - iii) The tabling and adoption of any amendments to the integrated development plan and the budget-related policies
 - iv) Any consultative processes forming part of the processes referred to in subparagraphs (i), (ii) and (iii).
- ✚ On receipt of the monthly a statement submitted by the accounting officer, the mayor must:
 - Consider the statement report and check whether municipality's approved budget is implemented in accordance with the service delivery and budget implementation plan.
 - Consider and if necessary make revisions to the service delivery and budget implementation plan, provided that the council has approved such changes.
 - The mayor must issue out appropriate instructions to the municipal manager as acting accountant to ensure that:
 - The budget is implemented in accordance with the service delivery and budget implementation plan.
 - That the spending of funds and revenue collection procedures are in accordance with the budget.
 -

- The mayor must identify any financial problems facing the municipality including emerging and impeding financial problems.
- Submit a mid year budget and performance assessment report to the council by January each year.
- If the municipality faces financial problems the mayor must:
 - Respond to initiate any corrective steps proposed by the accounting office to deal with such problems, which includes steps to reduce spending when revenue is anticipated to be less than projected in the municipalities approved budget
 - He must also follow the tabling or adjustments budget steps in terms of chapter thirteen of the MFMA
 - Alert the council and the MEC for the local government in the province to the above stated problems and ensure that any revisions of the service delivery and budget implementation processes are made public promptly

[3.2] Duties and Functions of the Municipal Manager

- Submit the approved annual budget to the National treasury and provincial treasury.
- The Municipal Manager in his role as accounting officer must provide guidance and advice on compliance with this Act to political structures and political office bearers including entities solely owned by the municipality.
- ✚ Ensures that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorization withdrawal and payment of funds.
- ✚ Ensures the municipality has and maintains a management accounting and information system, which recognizes expenditure when it occurs and accounts for the creditors of the municipality.
- ✚ The accounting officer of a municipality must submit to the mayor, no less than 10 working days after the end of the month a statement in the prescribed format on the state of the municipality's budget, reflecting the following particulars for that month:
 - Actual revenue, per revenue source
 - Actual borrowings
 - Actual expenditure per vote
 - ✚ Actual capital per vote.
- ✚ That the municipality has and maintains a system of internal control in respect of creditors and payments.
- ✚ That payments made by the municipality are made to the correct parties i.e. the parties to whom money is owed.
- ✚ That all amounts owing by the municipality re paid within 30 days of receiving the relevant invoice or statement unless otherwise for certain categories of expenditure.
- ✚ That only disputes between the municipality and any other organ of the state concerning payments due is disposed in terms of the state

- ✦ That the municipalities available working capital is managed effectively and economically in terms of the prescribed cash, management investment framework.
- ✦ The Municipal Manager in his capacity as the accounting officer is expected to assist the mayor in his preparation of the budget
- ✦ The Municipal Manager shall ensure that all heads of departments provide the inputs required by the Chief Financial Officer into these budget processes.
- ✦ Is responsible for implementing the municipalities and budget and ensuring that spending of municipal funds is in accordance with the budget and is reduced as necessary when the revenue is anticipated to be less than projected or in the service delivery and the budgeted implementation plan.
- ✦ The accounting officer of a municipality must report any impending shortfalls in budgeted revenue and overspending of the municipality's budget to the municipal council in writing. Any steps taken to prevent or rectify such shortfalls or overspending must also be reported.

[3.3] Duties and Functions of the Chief Financial Officer

- To prepare the draft annual capital and operating budgets (including the budget components required for the ensuing two financial years), any required adjustments budgets, the projections of revenues and expenses for the service delivery and budget implementation plan (including the alignment of such projections with the cash management programme prepared in terms of the banking and investments policy), and shall be accountable to the Municipal Manager in regard to the performance of these functions.
- Shall draft the budget timetable for the ensuing financial year for the Mayor's approval, and shall indicate in such timetable the target dates for the draft revision of the annual budget and the preparation of the annual budget for the ensuing financial year, which target dates shall follow the prescriptions of the Municipal Finance Management Act, and target dates for the submission of all the budget-related documentation to the Mayor, finance committee, executive committee and Council.
- Except where the Chief Financial Officer, with the consent of the Mayor and Municipal Manager, decides otherwise, the sequence in which each annual budget and adjustments budget shall be prepared, shall be: first, the capital component, and second, the operating component. The operating component shall duly reflect the impact of the capital component on:
 - depreciation charges
 - repairs and maintenance expenses
 - interest payable on external borrowings
 - other operating expenses
- In preparing the operating budget, the Chief Financial Officer shall determine the number and type of votes to be used and the line-items to be shown under each vote, provided that in so doing the Chief Financial Officer shall properly and adequately reflect the organisational structure of the municipality, and further in so doing shall comply – in so far as the organisational structure permits – also with the prescribed budget format of National Treasury.
- Shall determine the depreciation expenses to be charged to each vote, the apportionment of interest payable to the appropriate votes, the estimates of withdrawals from (claims) and

contributions to (premiums) the self-insurance reserve, and the contributions to the provisions for bad debts, accrued leave entitlements and obsolescence of stocks.

- Shall further, with the approval of the Mayor and the Municipal Manager, determine the recommended contribution to the asset financing reserve and any special contributions to the self-insurance reserve.
- Shall also, again with the approval of the Mayor and the Municipal Manager, and having regard to the municipality's current financial performance, determine the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted.
- Shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections, and the heads of departments shall timeously and adequately furnish the Chief Financial Officer with all explanations required for deviations from the budget.
- Shall submit these monthly reports to the Executive committee and Finance Standing committee, and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act.
- Shall provide technical and administrative support to the Mayor in the preparation and approval of the annual and adjustment budgets, as well as in the consultative processes, which must precede the approval of such budgets. The Chief Financial Officer shall ensure that the annual and adjustments budgets comply with the requirements of the National Treasury reflect the budget priorities determined by the Mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the Mayor on the revision of the IDP and the budget-related policies where these are indicated.
- Shall make recommendations on the financing of the draft capital budget for the ensuing and future financial years, indicating the impact of viable alternative financing scenarios on future expenses, and specifically commenting on the relative financial merits of internal and external financing options.
- Shall determine the basis for allocating overhead expenses not directly chargeable to votes. The expenses associated with the democratic process shall be allocated to a separate vote, and shall not be charged out as an overhead.
- Shall ensure that the cost of indigency relief is separately reflected in the appropriate votes.
- Shall ensure that the allocations from other organs of state are properly reflected in the annual and adjustments budget, and that the estimated expenses against such allocations (other than the equitable share) are appropriately recorded.

PART 4. ANNEXURE: LEGAL REQUIREMENTS IN TERMS OF THE MUNICIPAL FINANCE MANAGEMENT ACT NO 56 OF 2003

SECTION 15: APPROPRIATION OF FUNDS FOR EXPENDITURE

Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each budget vote.

SECTION 16: ANNUAL BUDGETS

The Council of the municipality must approve the annual budget before the start of the financial year to which it relates. The Mayor must table the annual budget at least ninety days before the start of such

financial year. The capital budget may extend over three years, provided that it is separated into annual appropriations for that period.

SECTION 17: CONTENTS OF ANNUAL BUDGETS AND SUPPORTING DOCUMENTS

The budget must be in the prescribed format, and must be divided into a capital and an operating budget. The budget must reflect the realistically expected revenues by major source for the budget year concerned. The expenses reflected in the budget must be divided into votes.

The budget must also contain the foregoing information for the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the year before the current year, and the estimated revenues and expenses for the current year.

The budget must be accompanied by all the following documents:

1. draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
2. draft resolutions (where applicable) amending the IDP and the budget-related policies
3. measurable performance objectives for each budget vote, taking into account the municipality's IDP
4. the projected cash flows for the financial year by revenue sources and expenditure votes
5. any proposed amendments to the IDP
6. any proposed amendments to the budget-related policies
7. the cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other Councillors, the Municipal Manager, the Chief Financial Officer, and other Senior Managers
8. particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as NGOs, welfare institutions etc.
9. particulars of the municipality's investments; and
10. various information in regard to municipal entities under the shared or sole control of the municipality.

SECTION 18: FUNDING OF EXPENDITURES

The budget may be financed only from:

- realistically expected revenues, based on current and previous collection levels
- cash-backed funds available from previous surpluses where such funds are not required for other purposes; and
- borrowed funds in respect of the capital budget only

SECTION 19: CAPITAL PROJECTS

A municipality may spend money on a capital project only if the money for the project (including the cost of any required feasibility studies) has been appropriated in the capital budget. The total cost of the project must also be approved by the Council.

The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and has not been committed for other purposes.

Before approving a capital project, the Council must consider the projected cost of the project over all the ensuing financial years until the project becomes operational, as well as the future operational costs and any

revenues, which may arise in respect of such project, including the likely future impact on property rates and service tariffs.

SECTION 20: MATTERS TO BE PRESCRIBED

The Minister of Finance must prescribe the form of the annual budget, and may further prescribe a variety of other matters, including the inflation projections, which the municipality must use in compiling its budget.

The Minister may also prescribe uniform norms and standards in regard to the setting of tariffs where a municipality entity or other external mechanisms is used to perform a municipal service; and may also take appropriate steps to ensure that a municipality does not, in exceeding its fiscal powers, materially and unreasonably prejudice national economic policies (particularly on inflation, administered pricing and equity), economic activities across municipal boundaries, and the national mobility of goods, services, capital or labour.

SECTION 21: BUDGET PREPARATION PROCESS

The Mayor of the municipality must:

- Co-ordinate the processes for preparing the annual budget, and for reviewing the municipality's IDP and budget-related policies to ensure that the budget, the IDP, and the policies are mutually consistent and credible
- At least ten months before the start of the ensuing financial year, table in the Council the time schedule with key deadlines for the preparation, tabling and approval of the following year's annual budget, the review of the IDP and budget-related policies, and the consultative processes required in the approval of the budget
- When preparing the annual budget, take into account the municipality's IDP, the national budget, provincial budget, the National Government's fiscal and macro-economic policies, and the annual Division of Revenue Act
- Take all reasonable steps to ensure that the municipality revises its IDP in line with realistic revenue and expenditure projections for future years
- Consult the district municipality (if it is a local municipality) and all other local municipalities in the district, and all other local municipalities in the district if it is a district municipality
- Consult the National Treasury when requested, the Provincial Treasury, and such other provincial and national organs of state as may be prescribed
- Provide, on request, any budget-related information to the National Treasury, other national and provincial organs of state, and any other municipality affected by the budget

SECTION 22: PUBLICATION OF ANNUAL BUDGETS

Immediately after the annual budget has been tabled, the Municipal Manager must make this budget and other budget-related documentation public, and must invite the local community to submit representations in regard to such budget.

The Municipal Manager must also immediately submit the tabled budget in both printed and electronic formats to the National Treasury, the Provincial Treasury, and in either format to prescribed national and provincial organs of state and other municipalities affected by the budget.

SECTION 23: CONSULTATIONS ON TABLED BUDGETS

After the budget has been tabled, the Council of the municipality must consider the views of the local community, the National Treasury, the Provincial Treasury, and any provincial or national organs of state or municipalities, which have made submissions on the budget.

After considering these views, the Council must give the Mayor the opportunity to respond to the submissions received, and – if necessary – revise the budget and table the relevant amendments for consideration by the Council.

The National Treasury may issue guidelines on the manner in which the Council must process the annual budget, including guidelines on the formation of a committee of the Council to consider the budget and hold public hearings. Such guidelines shall be binding only if they are adopted by the Council.

SECTION 24: APPROVAL OF ANNUAL BUDGETS

The Council must consider approval of the budget at least thirty days before the start of the financial year to which such budget relates. The budget must be approved before the start of such financial year, and the resolutions and performance objectives referred to in Section 17 must simultaneously be adopted.

SECTION 25: FAILURE TO APPROVE BUDGET BEFORE START OF BUDGET YEAR

This Section sets out the process, which must be followed if the budget is not approved in the normal course of events. Briefly the Council must reconsider and vote on the budget, or an amended version of the budget, every seven days until a budget is approved. The Mayor must immediately inform the MEC for Local Government if the budget is not adopted by the start of the budget year, and may request a provincial intervention.

SECTION 26: CONSEQUENCES OF FAILURE TO APPROVE BUDGET BEFORE START OF BUDGET YEAR

The provincial executive must intervene in any municipality, which has not approved its annual budget by the start of the relevant financial year. Such intervention must entail the taking of any appropriate steps to ensure a budget is approved, including dissolving the Council and appointing an administrator until a new Council can be elected, and approving a temporary budget until such new Council can adopt a permanent budget for the municipality. The Section also imposes restrictions on what may be spent in terms of such temporary budget.

SECTION 27: NON-COMPLIANCE WITH PROVISIONS OF THIS CHAPTER

This Policy sets out the duties of the Mayor to report any impending non-compliance and the general consequences of non-compliance with the requirements of the various foregoing prescriptions.

SECTION 28: MUNICIPAL ADJUSTMENTS BUDGETS

A municipality may revise its annual budget by means of an adjustments budget. However, a municipality must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.

A municipality may appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for. A municipality may in such adjustments budget, and within the prescribed framework, authorise unforeseen and unavoidable expenses on the recommendation of the Mayor.

A municipality may authorise the utilisation of projected savings on any vote towards spending under another vote. Municipalities may also authorise the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved by the Council.

Only the Mayor of the municipality may table an adjustments budget. Such budget may be tabled whenever necessary, but limitations on the timing and frequency of such tabling may be prescribed.

An adjustments budget must contain all of the following:

- an explanation of how the adjustments affect the approved annual budget;
- appropriate motivations for material adjustments; and
- an explanation of the impact of any increased spending on the current and future annual budgets.

Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.

(a) VIREMENTING OF FUNDS

Budgets are approved reflecting different Votes. In terms of the definitions of the Municipal Finance Management Act, a Vote means:

- (a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different *departments* or functional areas of the municipality; and
- (b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

Budget amendments and virementing between Operating Budgets and Capital Budgets are not permissible, except in the case of Grant Funding, bearing in mind about the conditions that might applicable to specific grant.

NB: Virementing of funds within the operating or capital budgets is permissible subject to strong motivations by the Manager concerned.

Changing circumstances and priorities may give rise to a need to shift (virement) funds within an approved Vote (as defined in the MFMA). A request for virementing of funds (**through the attached Virement form – see Annexure “A”**) shall be made by the affected Department on the appropriate form, for recording by Finance Department.

Approval of Virements in respect of **Operating Budget** and **Capital Budget**: -

1. Up to R20 000: Recommended by the affected Manager for approval by the Chief Financial Officer;
2. From R20 001 to R50 000: Recommended by the affected Manager, endorsed by the Chief Financial Officer and final approval by the Municipal Manager.
3. Any amount greater than R50 000: An item must be prepared by the Department concerned identifying the actions to be taken in addressing the situation and be submitted to the Standing Committee of that Department, with the comments from Finance Department, as this relates to financial affairs of the municipality, and a possible budget amendment. **(The above values are subject to change, from time to time, as determined by Council).**

NB: Expenditure may only be incurred after approval of the virement by the relevant authorities, as set out above.

SECTION 29: UNFORESEEN AND UNAVOIDABLE EXPENDITURE

In regard to unforeseen and unavoidable expenses, the following apply:

- the Mayor may authorise such expenses in an emergency or other exceptional circumstances
- the municipality may not exceed a prescribed percentage of the approved annual budget in respect of such unforeseen and unavoidable expenses
- these expenses must be reported by the Mayor to the next Council meeting
- the expenses must be appropriated in an adjustments budget; and
- the adjustments budget must be passed within sixty days after the expenses were incurred

SECTION 30: UNSPENT FUNDS

The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for the expenses referred to above in Section 16.

SECTION 31: SHIFTING OF FUNDS BETWEEN MULTI-YEAR APPROPRIATIONS

If the funds for a capital project have been appropriated for more than one financial year (see Section 16) these expenses may exceed the appropriation for any one financial year, provided:

- the increase is not more than 20% of that financial year's allocation
- the increase is funded in the next financial year's appropriations
- Municipal Manager certifies that actual revenues are expected to exceed budgeted revenues, and that enough funds will be available to finance such increased appropriation without incurring further borrowing beyond the annual budget limit
- the Mayor gives prior written approval for such increased appropriation; and
- all the above documentation is provided to the Auditor-General

SECTION 32: UNAUTHORISED, IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

- (a) a political office-bearer of a municipality is liable for unauthorised expenditure if that office-bearer knowingly or after having been advised by the Accounting Officer of the municipality that the expenditure is likely to result in unauthorised expenditure, instructed an official of the municipality to incur the expenditure;
 - (b) the Accounting Officer is liable for unauthorised expenditure deliberately or negligently incurred by the accounting officer, subject to subsection (3);
 - (c) any political office-bearer or official of a municipality who deliberately or negligently committed, made or authorised an irregular expenditure, is liable for that expenditure; or
 - (d) any political office-bearer or official of a municipality who deliberately or negligently made or authorised a fruitless and wasteful expenditure is liable for that expenditure.
- (2) A municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure—
- (a) in the case of unauthorised expenditure, is—
 - (i) authorised in an adjustments budget; or
 - (ii) certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council; and
 - (b) in the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by the council.
- (3) If the Accounting Officer becomes aware that the council, the mayor or the

- executive committee of the municipality, as the case may be, has taken a decision which, if implemented, is likely to result in unauthorised, irregular or fruitless and wasteful expenditure, the Accounting Officer is not liable for any ensuing unauthorised, irregular or fruitless and wasteful expenditure provided that the Accounting Officer has informed the council, the mayor or the executive committee, in writing, that the expenditure is likely to be unauthorised, irregular or fruitless and wasteful expenditure.
- (4) The Accounting Officer must promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of—
- (a) any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality;
 - (b) whether any person is responsible or under investigation for such unauthorised, irregular or fruitless and wasteful expenditure; and
 - (c) the steps that have been taken—
 - (i) to recover or rectify such expenditure; and
 - (ii) to prevent a recurrence of such expenditure.
- (5) The writing off in terms of subsection (2) of any unauthorised, irregular or fruitless and wasteful expenditure as irrecoverable, is no excuse in criminal or disciplinary proceedings against a person charged with the commission of an offence or a breach of this Act relating to such unauthorised, irregular or fruitless and wasteful expenditure.
- (6) The Accounting Officer must report to the South African Police Service all cases of alleged—
- (a) irregular expenditure that constitute a criminal offence; and
 - (b) theft and fraud that occurred in the municipality.
- (7) The council of a municipality must take all reasonable steps to ensure that all cases referred to in subsection (6) are reported to the South African Police Service if—
- (a) the charge is against the accounting officer; or
 - (b) the Accounting Officer fails to comply with that subsection.
- (8) The Minister, acting with the concurrence of the Cabinet member responsible for local government, may regulate the application of this section by regulation in terms of section 168.

SECTION 33: CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

Contracts extending beyond one financial year may be entered into by a municipality, but if such contract extends beyond the three years covered in the annual budget, the municipality may enter into such contract only if:

- The Municipal Manager, at least sixty days before the Council meeting at which the contract is to be approved, has made the contract public, with an information statement summarising the municipality's obligations, and inviting the local community and other interested parties to submit comments or make representations
- The Municipal Manager solicits the views and recommendations of the National Treasury and Provincial Treasury in respect to such contract, as well as those of the National Department of Provincial and Local Government, and any national department concerned with water, sanitation or electricity, if the contract relates to any of these services
- The Council has taken into account the projected financial obligations in regard to such contract, the impact on tariffs, and the views and comments received from all the foregoing parties
- The Council adopts a resolution determining that the municipality will secure a significant capital investment or derives a significant financial or economic benefit from the contract, and approves the entire contract exactly as it is to be executed.

A contract for purposes of this Section shall exclude any contract relating to the incurring of long- term debt by the municipality, employment contracts, contracts for categories of goods as may be prescribed, or contracts where the value of the contract is less than a prescribed value or a prescribed percentage of the annual budget.

SECTION 42: PRICE INCREASES OF BULK RESOURCES FOR PROVISION OF MUNICIPAL SERVICES

National and provincial organs of state which supply water, electricity or any other bulk resources to municipalities or municipal entities for the provision of municipal services may increase the price of such resources only after doing all the following:

- The proposed increase must be submitted to the organ's executive authority and (where legislation so requires) to any regulatory agency for approval
- At least forty days prior to the above submission the National Treasury and organised local government must be invited to submit written comments on the proposed increase
- The executive authority, after taking into account the comments received, must table the price increase in Parliament or the provincial legislature, as the case may be, with a full motivation and certain other prescribed explanatory documentation

Unless the Minister of Finance otherwise directs, a price increase must be tabled on or before 15 March to take effect from 1 July of the same year. If it is tabled after 15 March it may only take effect from 1 July of the following year.

SECTION 43: APPLICABILITY OF TAX AND TARIFF CAPPING ON MUNICIPALITIES

If a national or provincial organ of state is legislatively empowered to determine the upper limits of any municipal tax or tariff, such determination takes effect on the date specified in the determination, but provided that, unless the Minister of Finance otherwise directs:

- A determination promulgated on or before 15 March shall not take effect before 1 July of the same year
- A determination promulgated after 15 March shall not take effect before 1 July of the following year
- A determination shall not be allowed to impair a municipality's ability to meet any annual or periodic escalations in the payments it must make in respect of any contract legally entered into by a municipality

SECTION 53: BUDGET PROCESSES AND RELATED MATTERS

The Mayor of the municipality must:

- Provide general political guidance over the annual budget process and the priorities that guide the preparation of each budget
- Co-ordinate the annual revision of the IDP, as well as the preparation of the annual budget, and determine how the IDP is to be taken into account or is to be revised for purposes of such budget
- Take all reasonable steps to ensure that the Council approves the annual budget before the start of the financial year to which it relates, and that the municipality's service delivery and budget implementation plan is approved within twenty-eight days after the approval of the budget
- Ensure that the annual performance agreements for the Municipal Manager and the senior managers of the municipality are linked to measurable performance objectives which are approved with the budget and the service delivery and budget implementation plan
- The Mayor must promptly report to the Council and the MEC for Local Government any delay in tabling the annual budget, approving the service delivery and budget implementation plan or signing the annual performance agreements
- The Mayor must further ensure that the service delivery targets and quarterly performance indicators, and the monthly projections of revenues and expenses in the

service delivery and budget implementation plan, are made public not later than fourteen days after these matters have been approved; and that the performance agreements of the Municipal Manager and other senior officials are similarly made public not later than fourteen days after their approval

SECTION 68: BUDGET PREPARATION

The Municipal Manager must assist the Mayor in performing the assigned budgetary functions and must provide the Mayor with administrative support, operational resources and the information necessary to perform these functions.

SECTION 69: BUDGET IMPLEMENTATION

The Municipal Manager is responsible for implementing the budget, and must take reasonable steps to ensure that:

- funds are spent in accordance with the budget
- expenses are reduced if expected revenues are less than projected; and
- revenues and expenses are properly monitored

The Municipal Manager must prepare any adjustments budget when such budget is necessary and submit it to the Mayor for consideration and tabling in Council. The Municipal Manager must submit a draft service delivery and budget implementation plan to the Mayor fourteen days after the annual budget has been approved, and must also within the same period submit drafts of the annual performance agreements to the Mayor.

SECTION 70: IMPENDING SHORTFALLS, OVERSPENDING AND OVERDRAFTS

The Municipal Manager must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

SECTION 71: MONTHLY BUDGET STATEMENTS

The Municipal Manager must, not later than ten working days after the end of each calendar month, submit to the Mayor and Provincial Treasury a report in the prescribed format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

This report must reflect the following:

- actual revenues per source, compared with budgeted revenues
- actual expenses per vote, compared with budgeted expenses
- actual capital expenditure per vote, compared with budgeted expenses
- actual borrowings, compared with the borrowings envisaged to fund the capital budget
- the amount of allocations received, compared with the budgeted amount
- actual expenses against allocations, but excluding expenses in respect of the equitable share
- explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the service delivery and budget implementation plan
- the remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
- projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised

The report to the National Treasury must be both in electronic format and in a signed written document.

SECTION 54: BUDGETARY CONTROL AND EARLY IDENTIFICATION OF FINANCIAL PROBLEMS

On receipt of the report from the Municipal Manager, the Mayor must:

- consider the report
- check whether the budget has been implemented in accordance with the service delivery and budget implementation plan
- issue appropriate instructions to the Municipal Manager to ensure that the budget is implemented in accordance with this plan, and that the spending of funds and the collection of revenues proceed in accordance with the approved budget
- identify any financial problems facing the municipality, as well as any emerging or impending financial problems; and
- submit to the Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the municipality.

If the municipality faces any serious financial problems, the Mayor must:

- promptly respond to and initiate the remedial or corrective steps proposed by the Municipal Manager, and
- alert the MEC for Local Government and the Council of the municipality to the problems concerned
- The Mayor may revise the details of the service delivery and budget implementation plan, but any revisions to the service delivery targets and quarterly performance indicators must be approved by the Council, and be supported by an adjustments budget.
- Any changes made to the projections of revenues and expenses as set out in the plan must promptly be made public.

SECTION 55: REPORT TO PROVINCIAL EXECUTIVE IF CONDITIONS FOR PROVINCIAL INTERVENTION EXIST

If the Council has not approved its annual budget by the first day of the financial year to which it relates, or if the municipality encounters serious financial problems, the Mayor must immediately report this matter to the MEC for Local Government and may recommend a provincial intervention.

SECTION 72: MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT

The Municipal Manager must assess the budgetary performance of the municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan, and the past financial year's annual report and the progress made in resolving problems identified in such report.

The Municipal Manager must then submit a report on such assessment to the Mayor, the National Treasury and the Provincial Treasury. The Municipal Manager may in such report make recommendations for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan. In terms of Section 54(1) (f) the Mayor must promptly submit this assessment report to the Council of the municipality.

SECTION 73: REPORTS ON FAILURE TO ADOPT OR IMPLEMENT BUDGET-RELATED AND OTHER POLICIES

The Municipal Manager must inform the Provincial Treasury, in writing, of any failure by the Council to adopt or implement any budget-related policy or a supply chain management policy, and of any non-compliance by an office bearer or political structure with such policy.

SECTION 75: INFORMATION TO BE PLACED ON WEBSITES OF MUNICIPALITIES

The Municipal Manager must place on the municipality's official website (inter alia) the following:

- the annual and adjustments budgets and all budget-related documents;
- all budget-related policies;
- the annual report;
- all performance agreements;
- all service delivery agreements;
- all long-term borrowing contracts;
- all quarterly reports submitted to the Council on the implementation of the budget and the financial state of affairs of the municipality

SECTION 80: ESTABLISHMENT (OF MUNICIPAL BUDGET AND TREASURY OFFICE)

Every municipality must have a budget and treasury office comprising a Chief Financial Officer supported by appointed officials and contracted staff.

SECTION 81: ROLE OF CHIEF FINANCIAL OFFICER

The Chief Financial Officer is administratively in charge of the budget and treasury office and must, inter alia:

- assist the Municipal Manager in preparing and implementing the budget;
- perform such budgeting, financial reporting and financial management and review duties as are delegated by the Municipal Manager
- account to the Municipal Manager for the performance of all the foregoing responsibilities

SECTION 83: COMPETENCY LEVELS OF PROFESSIONAL FINANCIAL OFFICIALS

The Municipal Manager, senior managers, the Chief Financial Officer and the other financial officials in a municipality must all meet prescribed financial management competency levels.

The budgeting process should not be perceived to be isolated from the Integrated Development Process. This process should be informed by the councils Integrated Development Planning Process, especially in terms of the municipality's goals and objectives for the budget year, taking into consideration any problems experienced in the prior year i.e. any deviations from the budget.

Integrated Development Policy

1. INTRODUCTION

The municipal Council must, within a prescribed period after the start of its elected term, adopt a single, inclusive and strategic plan for the development of the municipality (Local Government Municipal Systems Act, 2000, Section 25).

The municipal Council must ensure that the Integrated Development Plan is undertaken within the provisions of Chapter 5 of the Municipal Systems Act, 2000.

The Integrated Development Plan is the process through which the municipality will prepare a strategic development plan, for a five-year period. The Integrated Development Plan (IDP) is to be the product of the Integrated Development Plan process. The Integrated Development Plan is the principal strategic planning instrument, which guides and informs all planning, budgeting, management and decision-making in the municipality.

An Integrated Development Plan adopted by a municipal Council may be amended, and remains in force until an Integrated Development Plan is adopted by the next elected Council (Local Government Municipal Systems Act, 2000, Section 25(2)). Therefore, the Integrated Development Plan is linked to the term of office of a Council. The new Council has the option of adopting the Integrated Development Plan of its predecessor, or to develop a new Integrated Development Plan taking into consideration already existing planning documents.

2. CORE COMPONENTS OF INTEGRATED DEVELOPMENT PLANS

The Integrated Development Plan must reflect:

- The municipal Council's vision for the long term development of the municipality, with special emphasis on the municipality's most critical development and internal transformation needs;
- An assessment of the existing level of development in the municipality, which must include an identification of communities which do not have access to basic municipal services;
- The Council's development priorities and objectives for its elected term, including its local economic development aims and its internal transformation needs;
- The Council's development strategies which must be aligned with any national or provincial sectoral plans and planning requirements binding on the municipality in terms of legislation;
- A spatial development framework which must include the provision of basic guidelines for a land use management system for the municipality;
- The Council's operational strategies;
- Applicable disaster management plans;
- A financial plan, which must include a budget projection for at least the next three years; and
- The key performance indicators and performance targets with regard to the municipality's development priorities and objectives.

3. THE OBJECTIVES OF THE IDP WITH REGARD TO THE VARIOUS STAKEHOLDERS

The Integrated Development Plan should aim to achieve the following objectives for the various stakeholders:

- The Municipal Council:
 - o Enable the municipality to obtain access to development resources and outside investment;
 - o Enable the municipality to provide clear and accountable leadership and development direction;
 - o Enable the municipality to develop a cooperative relationship with its stakeholders and communities; and
 - o Enable the municipality to monitor the performance of officials;

- Councillors:
 - o Provide Councillors with a mechanism for communicating with their constituencies;
 - o Enable Councillors to represent their constituencies effectively by making informed decisions; and
 - o Enable Councillors to measure their own performance;
- Municipal Officials:
 - o Provide officials with a mechanism to communicate with Councillors;
 - o Enable the officials to contribute to the municipality's vision; and
 - o Enable the officials to be part of the decision-making process;
- Communities and Other Stakeholders:
 - o Give communities and stakeholders an opportunity to inform the Council what their development needs are, and to determine the municipality's development direction;
 - o Provide a mechanism through which to communicate with their Councillors and the governing body; and
 - o Provide a mechanism through which they can measure the performance of the Councillors and the municipality as a whole;
- National and Provincial Sector Departments:
 - o The availability of the Integrated Development Plan provides guidance to sector departments as to where their services are required for the implementation of projects, and hence where to allocate their resources;
- Private Sector:
 - o The Integrated Development Plan serves as a guide to the private sector in making decisions with regard to areas and sectors to invest in;
- General:
 - o In the absence of an Integrated Development Plan, a municipality would act in an ad hoc, uninformed and uncoordinated manner, which would lead to the duplication and wastage of limited resources. Furthermore, the lack of a municipal tool to guide development would result in other spheres of government imposing their development programmes, which may not be priority for a municipal area.

4. FRAMEWORK FOR THE INTEGRATED DEVELOPMENT PLAN

Each municipality must within a prescribed period after the start of its elected term adopt a framework for Integrated Development Planning in the area as a whole.

The framework referred above must at least:

- Identify the plans and planning requirements binding in terms of national and provincial legislation on any specific municipality;
- Identify any matters to be included in the Integrated Development Plan of the local municipalities that require alignment;

- Specify the principles to be applied and coordinate the approach to be adopted in respect of those matters; and

Determine procedures:

- o To effect essential amendments to the framework (Local Government Municipal Systems Act, 2000, Section 27).

5. THE IDP PROCESS PLAN

Each municipal Council, within a prescribed period after the start of its elected term, must adopt a process set out in writing to guide the planning, drafting, adoption and review of its Integrated Development Plan (Local Government Municipal Systems Act, 2000, Section 28).

There is some preparation that needs to be done prior to the commencement of the planning process. Preparation involves the creation of an “IDP process plan”. The IDP process plan is necessary to ensure proper management of the planning process.

The IDP process plan must include the following:

- Institutional structure to be established for management of the process
- Approach to public participation
- Structures to be established for public participation
- Time schedule for the planning process
- Roles and responsibilities (who will do what)
- How will the process be monitored
- The identification of all plans and planning requirements binding on the municipality in terms of national and provincial legislation.

The process plan is a separate document from the framework, and it should fulfil the function of a business plan or an operational plan for the Integrated Development Plan process.

6. RECOMMENDED STRUCTURES / PERSONS TO BE INVOLVED IN THE INTEGRATED DEVELOPMENT PROCESS PLAN

The following structures/persons are recommended:

- Municipal Manager or Manager to whom the function of Integrated Development Planning has been delegated by the Municipal Manager
- Technical Budget Committee
- Local Budget Consultation Forum
- Sector Consultation Budget Forum

ROLES AND RESPONSIBILITIES OF PERSONS/STRUCTURERS

Municipal Council:

- Consideration and adoption of a process plan; and
- Consideration, adoption and approval of the IDP
- Must decide on the process plan;
- Must be responsible for the overall management, coordination and monitoring of the process and drafting of the Integrated Development Plan, or delegate this function to the municipal manager; and

- Must approve nominated persons to be in charge of the different roles, activities and responsibilities of the process and drafting.

Ward Councillors:

- Must link the planning process to their constituencies and wards;
- Must be responsible for organising public consultation and participation; and
- Must ensure the annual business plans and municipal budget are linked to and based on the Integrated Development Plan.

Municipal Manager or Manager to whom the function of Integrated Development Planning has been delegated by the Municipal Manager:

- Must manage and coordinate the integrated development planning process;
- Must prepare the process plan;
- Must undertake the overall management and coordination of the planning process;
- Must ensure that all the relevant actors are appropriately involved;
- Must nominate persons in charge of different roles;
- Must be responsible for the day-to-day management of the drafting process;
- Must ensure that the planning is participatory, strategic and implementation orientated, and is aligned with and satisfies sector planning requirements;
- Must respond to comments on the draft Integrated Development Plan from the public, horizontal alignment and other spheres of government to the satisfaction of the municipal Council; and
- Must ensure proper documentation of the results of the planning process in the Integrated Development Plan document.

Heads of Departments and Officials:

- Must provide relevant technical, sector and financial information for analysis for determining priority issues;
- Must contribute technical expertise in the consideration and finalization of strategies and identification of projects;
- Must provide departmental operational and capital budgetary information;
- Must be responsible for the preparation of project proposals, the integration of projects and sector programmes;
- Must be responsible for preparing amendments to the draft Integrated Development Plan for submission to municipal Council for approval.

7. THE BUDGET TECHNICAL COMMITTEE

The Council and/or the Municipal Manager must:

- Define the terms of reference for the Manager to whom the Function of Integrated Development Planning has been delegated by the Municipal Manager and Budget Technical Committee which should include the following:
 - The provision of terms of reference for the various planning activities
 - The commissioning of research studies
 - Consideration and comments on:
 - Inputs from sub-committee/s, study groups and consultants

- Inputs from provincial sector departments and Community Development Workers
 - Processes, summaries and documents outputs
 - Makes content recommendations
 - Prepares, facilitates and documents meetings
- Assign responsibilities with regard to drafting of the Integrated Development Plan to the Municipal Manager and alternative persons; and
- Identify and nominate suitable candidates for the Budget Technical Committee, ensuring that all relevant issues have at least one responsible person;
- Ensure that the committee is a technical working group of dedicated Heads of Department and senior officials who support the Manager to whom the Function of Integrated Development Planning has been delegated by the Municipal Manager, thus ensuring smooth planning.

8. THE BUDGET LOCAL CONSULTATION FORUM

The Budget Technical Committee should be responsible for the establishment of the Budget Local Consultation Forum by:

- Defining terms of reference and criteria for members of the Budget Local Consultation Forum;
- Informing the public about the establishment of the Budget Local Consultation Forum and request submission of applications from stakeholders/community groups indicating goals, objectives, activities, number of members, and constitution;
- Identifying:
 - Community Development Workers
 - Additional stakeholders and marginalized/underrepresented groups that may need an “advocate” to represent their interests;
 - Potential advocates
 - Resource persons;(PIMMS) and (IDP officer)
 - Senior officials;
- Selecting potential groups/members based on the agreed criteria;
- Submitting proposed groups/members to Council for consideration; and
- Nominating members and informing the local community.

If the Municipal Manager is not the Integrated Development Plan Manager, the Municipal Manager must decide on: in writing

- Powers and functions to be delegated;
- Responsibility remaining with the municipal manager/accountability; and
- Reporting mechanisms.

The Budget Technical Committee can:

- Establish sub-committees (if necessary) and decide on relationships and reporting mechanisms; and
- Appoint a secretariat.

The Budget Local Consultation Forum is the structure, which institutionalises and guarantees representative participation in the IDP process. The selection of members to the Budget Local Consultation Forum needs to be based on criteria, which ensures geographical and social representation.

- Comprises of the following:
 - Members of Executive Committee;

- o Ward Councillors
- o Members of the Budget Technical Committee;
- o Traditional leaders;
- o Ward committee members;
- o Heads of departments and other senior officials;
- o Representatives of organized stakeholder groups;
- o Resource persons;
- o Community representatives;
- o Community development workers

The Budget Local Consultation Forum must:

- Represent the interests of their constituents in the IDP process
- Provide an organizational mechanism for discussion, negotiation and decision-making between the stakeholders, including municipal government
- Ensure communication between all stakeholder representatives including the municipal government
- Monitor the performance of the planning and implementation process
- Participation in the process of setting up and monitoring “key performance indicators” in line with the “Performance Management Manual”.

9. CODE OF CONDUCT BUDGET LOCAL CONSULTATION FORUM

A code of conduct must be drawn up for the Budget Local Consultation Forum that provides details on:

- Meetings – frequency and attendance
- Agenda, facilitation and recording of proceedings
- Understanding the role of various stakeholders as representatives of their constituencies
- How feedback to constituencies will take place
- Required majority for decisions to be taken
- How disputes will be resolved

10. STRATEGY FOR PUBLIC PARTICIPATION

The Council should also approve a strategy for public participation. The strategy must provide guidelines, amongst other things, on:

- The roles of the different stakeholders during the participation process
- Ways to encourage the participation of stakeholder groups
- Method to ensure participation during the different phases of planning
- Timeframes for public and stakeholder response, inputs and comments
- Ways to disseminate information
- Means to collect information on community needs

The participation strategy should contain a way forward on the following issues:

- The roles of different role-players during the participation process (e.g. Councillors, the Budget Technical Committee, the Budget Local Consultation Forum, other officials, consultants etc.)
- Means of encouraging adequate representation of stakeholder groups
- Participation mechanisms for different phases of the methodology
- Available resources for participation
- Frequency of meetings / workshops
- Appropriate venue for the meetings / workshops

- Time frames to allow responses, comments, inputs
- Appropriate participation tools
- Means of information dissemination
- Means of eliciting and collecting community needs (including documentation of participation inputs)

During the different stages of planning stakeholder participation should be encouraged in the following manner:

Planning phase	Methods for Participation
Analysis	Community Meetings organized by the ward Councillor Stakeholder Meetings Surveys and opinion polls (getting views on how people feel about a particular issue)
Strategies Projects	Budget Local Consultation Forum Budget Sector Consultation Forum Public Debates on what can work best in solving a problem Meetings with affected communities and stakeholders Representation of stakeholders on project subcommittees
Integration	Budget Local Consultation Forum Budget Sector Consultation Forum
Approval	Public Discussion and consultation with communities and stakeholders
Monitoring and Implementation	Budget Technical Committee

11. THE INTEGRATED DEVELOPMENT PLANNING PHASES

Once the Process Plan and the framework referred to above have been finalized, the municipality can then prepare its Integrated Development Plan.

Integrated Development Plan consists of the following phases:

Analysis Phase:

- This phase focuses on the type of problems faced by the people in the municipal area. Problems are identified and prioritised according to their urgency and/or importance;
- Stakeholder and community participation in this phase is critical. The people affected should be involved in determining the problems and the extent of the problems;
- It is important to identify priority issues to address all the issues identified by different segments in the community;
- The outputs of this phase include:
 - o Assessments of existing levels of development;
 - o Prioritisation of issues or problems;
 - o Information on causes of priority issues and problems; and
 - o Information on available resources.

Strategy Phase:

- This phase includes the formulation of:
 - o A vision statement which indicates the ideal situation the municipality would like to achieve in the long term;
 - o Development objectives which are statements of what the municipality would like to achieve in the medium term in order to address the issues or problems identified in the analysis phase;
 - o Development strategies which answer the question of how the municipality will achieve its objectives; and
 - o Project identification resources.
- The outputs of this phase include:
 - o The vision statement;
 - o Objectives;
 - o Strategies; and
 - o Identified projects.

Projects Phase:

- This phase involves the design and specification of projects for implementation. The municipality must ensure that the projects identified have a direct linkage to the priority issues and the objectives that were identified in the previous phases. This phase serves to make clear the identity of the target group, the location of the project, commencement dates and envisaged end dates, those responsible for managing the project, the costs of the project, and the source of funding for the project. Furthermore, targets and indicators are formulated to measure performance and the impact of the project resources.
- The outputs for this phase are:
 - o Performance indicators;
 - o Project outputs, targets and location;
 - o Project-related activities and time schedules; and
 - o Cost and budget estimates.
- Designing projects will require inputs from specialists who will work with the project formulation teams.

Integration Phase:

- Once the projects are identified, the municipality must ensure they are in line with the municipality's objectives and strategies, and also with the resource framework, and comply with legal requirements.
- This phase provides the municipality with the opportunity to harmonise the projects in terms of contents, location and timing to arrive at a consolidated and integrated program.
- The outputs for this phase include:
 - o A five year financial plan;
 - o A five year capital investment programme;

- o Integrated spatial development framework;
- o Integrated sectoral programmes;
- o Consolidated monitoring/performance management system;
- o A disaster management plan;
- o An institutional plan.

Approval Phase:

- Once it has been completed, the Integrated Development Plan must be made available to the public for their comments.
- Thereafter, the Integrated Development Plan must be submitted to the municipal Council for consideration and approval (Municipal Systems Act, 2000, Section 30).
- Council must consider whether the Integrated Development Plan identifies the key issues concerning the municipality and the extent to which the strategies and projects will contribute to addressing the problems. Council must also ensure that the Integrated Development Plan complies with all legal requirements.
- The output for this phase is an approved Integrated Development Plan for the municipality.

Provincial Monitoring and Support:

The Member of the Executive Committee (MEC) for Local Government in the Province may, subject to any other law regulating provincial supervision of local government:

- o Monitor the processes followed by the municipality in the formulation of its Integrated Development Plan ;
- o Assist the municipality with the planning, drafting, adoption and review of its Integrated Development Plan ;
- o Facilitate the coordination and alignment of:
 - ✓ Integrated Development Plan of different municipalities, including those of a DistrictMunicipality with the local municipalities within its area; and
 - ✓ the Integrated Development Plan of a municipality with plans, strategies and programmes of national and provincial organs of state;
- o Take any appropriate steps to resolve disputes or differences in connection with the planning, drafting, adoption or review of an Integrated Development Plan between:
 - ✓ A municipality and the local community;
 - ✓ Different municipalities (Local Government Municipal Systems Act, 2000, Section 31).

12. COPY OF INTEGRATED DEVELOPMENT PLAN TO BE SUBMITTED TO MEC FOR LOCAL GOVERNMENT

The Municipal Manager must submit a copy of the Integrated Development Plan as adopted by the Council of the municipality and any subsequent amendment to the plan, to the MEC for Local Government in the Province within 10 days of the adoption or amendment of the plan (Local Government Municipal Systems Act, 2000, Section 32).

The copy of the Integrated Development Plan to be submitted in terms the above paragraph must be accompanied by:

- A summary of the process that was followed by the municipality in drafting its Integrated Development Plan, including its consideration and adoption of the draft plan;
- A statement that the process has been complied with, together with any explanations that may be necessary to amplify the statement; and
- In the case of a local municipality, a copy of the framework referred to in terms of 4.1 above (Local Government Municipal Systems Act, 2000, Section 32).

The Member of the Executive Committee for Local Government in the Province may, within 30 days of receiving a copy of the Integrated Development Plan or an amendment to the plan, or within such reasonable longer period as may be approved by the Minister, request the relevant municipal Council:

- To adjust the plan in accordance with the MEC's proposals if the plan or amendment:
 - Does not comply with a requirement of the Municipal Systems Act;
 - Is in conflict with, or is not aligned with, or negates any of the development plans and strategies of other affected municipalities or organs of state; or
- To comply with the process followed by the municipality in drafting its Integrated Development Plan or with a specific provision of the Municipal Systems Act relating to the drafting or amending of the Integrated Development Plan where the municipality has failed to comply with that process or provision and to adjust the plan or the amendment if that becomes necessary after such compliance (Local Government Municipal Systems Act, 2000, Section 32).

The municipal Council must consider any proposal of the MEC, and within 30 days of receiving the MEC's request, must:

- If it agrees with those proposals, adjust its Integrated Development Plan or amendment in accordance with the request; or
- If it disagrees with the proposal, object to the request and furnish the MEC with reasons in writing of why it disagrees (Local Government Municipal Systems Act, 2000, Section 32).

On receipt of an objection to enhance cooperation, mutual assistance and sharing of resources among municipalities, the MEC may refer the municipality's objection to an *ad hoc* committee for a decision. If the MEC decides to refer an objection to an *ad hoc* committee, the objection must be referred within 21 days of receipt of the objection.

Whenever necessary, the MEC must appoint an *ad hoc* committee comprising members representing local government, the provincial government and the national government, to decide on an objection by a municipality in terms of (Local Government Municipal Systems Act, 2000, Section 32. (3) (b).

A matter before an *ad hoc* committee is decided if at least two spheres of government agree on the matter.

If the *ad hoc* committee rejects the municipality's objection, the municipality must within 30 days of the date on which the committee has taken a decision and informed the municipality, comply with the MEC's proposal (Local Government Municipal Systems Act, 2000, paragraph 33).

13. ANNUAL REVIEW AND AMENDMENT OF INTEGRATED DEVELOPMENT PLAN

A Municipal Council:

- Must review its Integrated Development Plan annually in accordance with an assessment of its performance measurements, and to the extent that changing circumstances so demand a review;
- May amend its Integrated Development Plan in accordance with a prescribed process (Local Government Municipal Systems Act, 2000, Section 34).

The mayors of a municipality must co-ordinate the annual revision of the Integrated Development Plan in terms of Section 34 of the Municipal Systems Act, and determine how the Integrated Development Plan is to be taken into account or is to be revised for the purposes of preparing the annual budget. (MFMA 53 (1) (b))

REVIEW OF THE POLICY

This Budget and IDP Policy is the sole policy governing budgeted and IDP related matters of the Nyandeni Local Municipality and this policy will be reviewed annually, through the Finance and LED standing committees and the final adoption by the Nyandeni Local Municipal Council or whenever the Chief Financial Officer and Municipal Manager deem it necessary for this policy to be reviewed.

NB: The municipal manager shall ensure that this policy is placed in the Municipality's official website.

Annexure “A” Nyandeni Local Municipality

APPLICATION TO AMEND : OPERATING / CAPITAL BUDGET
: PROVISIONS AND SPECIAL FUNDS BUDGET

This form must be:

1. Completed in duplicate
2. Signed by both **Vote Custodians**
3. Signed by **Manager**
4. Signed by Finance Accountant in terms of delegated authority
5. Approved on behalf of **Chief Financial Officer**

Officer NOTE:

1. The **maximum** transfer is **R50 000 (up to R20 000 relevant Manager and CFO’s approval and from R20 001 to R50 000 relevant Manager and CFO’s endorsement then the MM’s approval)**– If the amount exceeds R50 000 the relevant Portfolio Committee approval must be obtained
2. The votes involved must be within the **same** Service and transfers to/from operating to capital budget are **not allowed** except in the case of Grant Funding

TRANSFER REQUIRED R..... YEAR 20..... / 20

	FROM:	TO:
DEPARTMENT		
SECTION		
VOTE DESCRIPTION		
VOTE NUMBER		
ORIGINAL/REVISED BUDGET PROVISION		
COMMITTED TO DATE (Excluding		
VOTE CUSTODIAN		

.....
MOTIVATION:
.....

Manager (FROM)

Manager (TO)

DATE..... DATE

FOR FINANCE DEPARTMENT USE

Checked byDate..... FINANCE ACCOUNTANT

Approved Date..... on behalf of CHIEF FINANCIAL OFFICER

Vote Created:

Completed by Date.....

Authorised by Date.....MUNICIPAL MANAGER

NB: ATTACH A COPY OF THE RELEVANT PORTFOLIO COMMITTEE APPROVAL

**FOR A VIREMENT TRANSFER IN EXCESS OF THE VALUE DELEGATED TO THE
CHIEF FINANCIAL OFFICER AND MUNICIPAL MANAGER**

