

**ALFRED NZO DISTRICT  
MUNICIPALITY**



**ALFRED NZO**  
DISTRICT MUNICIPALITY

**BUDGET AND VIREMENTS POLICY**

**POLICY APPROVAL**

This policy was approved by the Council meeting held on:

DATE OF APPROVAL : 17 MAY 2024


DATE OF NEXT REVIEW : 31 MAY 2025



ACTING MUNICIPAL MANAGER  
MRS UP MAHLASELA



EXECUTIVE MAYOR  
COUNCILLOR V. MHLELEMBANA



SPEAKER  
COUNCILLOR S. MEHLOMAKHULU

**TABLE OF CONTENTS**

1. Definitions.....	3-5
2. Introductions.....	5
3. Executive Summary.....	5
4. Objectives:.....	5-6
5. Legal Requirement.....	6 - 20
6. Budget transfers and virements.....	20-22
7. Applicability of the municipality.....	23
8. Responsibilities of representatives.....	23
9. Budget principles to be followed.....	23-27
10. Standard Chart of Accounts.....	27-30
11. Responsibilities of the CFO.....	31-34
12. Interpretation of the policy:.....	34
13. Violation /non compilation:.....	34
14. Permanent /temporal waiver or suspension:.....	34
15. Compliance and enforcement.....	35
16. Amendment or repeal:.....	35

**1. DEFINITIONS**

In this Policy, unless inconsistent with the context

**“Accounting Officer”** means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act; and also refers to the municipal manager of a municipality in terms of section 60 of the MFMA;

**“Adjustment Budget”** means a budget as described in Section 28 of the MFMA, and in terms of Part 4 of the Municipal Budget and Reporting Regulations;

**“allocation”**, in relation to a municipality, 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;

**“Approved Budget”** means an annual budget that is approved by a Municipal Council or 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 MFMA and in terms of the Municipal Budget and Reporting Regulations;

**“Capital Asset”** means tangible and intangible assets that is held by the municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes and is expected to have a useful life extending for more than one financial year;

**“Capital Budget”** means an estimation of the expenses that meets the definition of capital assets, which will be incurred during a specific financial year from which future benefits economic benefits or service delivery will flow linked to the sources of finance from which these expenses will be funded;

**“Chief Financial Officer”** or **“CFO”** means a person designated in terms of section 80(2) (a) of the MFMA and who performs such budgeting and other duties as may be delegated in terms of section 79 of the MFMA by the accounting officer;

**“Council”** means the municipal council of this municipality referred to in section 18 of the Municipal Structures Act;

**“Cost Centre”** means the third level of appropriation of funds which specifies the total amount that is appropriated and for which only one line manager is responsible; the cost centre represents the Municipal classification segment of the municipal Standard Chart of Accounts;

## Budget and Virements Policy

---

**"Division of Revenue Act"** means the Act of Parliament, which must be enacted annually in terms of section 214 (1) of the Constitution;

**"Financial year"** means a 12-month period with year ending on 30 June;

**"Fruitless, and wasteful expenditure"** means expenditure that was made in vain and would have been avoided had reasonable care been exercised;

**"IDP"** is an acronym for Integrated Development Plan

**"Irregular expenditure"** means –

a) Expenditure incurred by the municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA, and which has not been condoned in terms of section 170 of the MFMA;

b) Expenditure incurred by the 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 the 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 the 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 the municipality which falls within the definition of "unauthorised expenditure";

**"Item segment"** is one of the 7 segments of the Municipal Standard Chart of Accounts and includes items of:

- Expenditure,

- Revenue,

- Assets,

- Liability,

- Gains and Losses.

**"Line manager"** means all officials reporting directly to a senior manager and to which a sub vote and Cost centre is allocated;

**"standard chart of accounts"** means a multi-dimensional classification framework providing the method and format for recording and classifying financial transaction information in the general ledger forming part of the books of account containing a standard list of all available accounts.

**"mSCOA"** is an abbreviation for **Municipal Standard Chart of Accounts** and is the classification framework for all accounting entries for municipalities. All transactions must be allocated to all seven segments of chart, namely:

1. Project segment;
2. Function segment;
3. Fund segment;
4. Regional segment;
5. Item segment;
6. Costing segment; and
7. Municipal classification segment (Only this segment is optional)

## 2. INTRODUCTIONS

Budgeting is a process whereby scarce resources are allocated to unlimited demands and a financial plan of operations for a specific period whereby specific amounts are allocated to specific purposes. It is also management tool that controls the spending of allocated resources.

Budget is based on the needs of the communities/stakeholders that are contained in the IDP. Budget guides the prioritization of services to be implemented within that particular term for instance the wish lists that the communities submit in their community based plans cannot be done all at once. Budget is allocated according to the powers and functions according to the municipal demarcation act and also as per the conditions of the grants in terms of the Division of Revenue Act.

The aim of this policy is to provide guiding budgeting principles for the municipality to follow when preparing the annual budget.

## 3. EXECUTIVE SUMMARY

The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year. The mayor of must table the annual budget at a council meeting at least 90 days before the start of the budget year except in so far as capital projects represent a contractual commitment to the

municipality extending for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.

#### 4. OBJECTIVES

3.1 To provide departments with guiding principles to compile their respective budgets

3.2 To promote public participation in aligning the Integrated Development Planning (IDP) and the Budget.

3.3 To provide key deadlines guiding the budget process

3.4 To enforce the budget implementation & monitoring processes

3.5 To stipulate required reporting intervals.

3.6 The policy shall be read in the context of the provisions of the following acts, regulations and administrative guidelines

- MFMA Circulars
- MFMA 56 of 2003
- Municipal Budget and Reporting Regulations
- Municipal Regulations on Standard Chart of Accounts

#### 5. LEGAL REQUIREMENTS

In terms of Chapter 4 of the Municipal Finance Management Act No 56 of 2003 a municipality may, except where otherwise provided in this Act, incur expenditure only in terms of an approved budget; and within the limits of the amounts appropriated for the different votes in an approved budget.

##### **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:

- draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
- draft resolutions (where applicable) amending the IDP and the budget - related policies;
- Measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the IDP of the municipality
- Cash flow projection for each year broken down per month
- Any proposed amendments to the Municipal Integrated Development Plan



following the review of the plan

- Any proposed amendments to the budget-related policies
- Details of the investments of the municipality
- Any prescribed budget information on municipal entities under the sole or shared control of the municipality
- Particulars of proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate
- Particulars of any proposed service delivery agreements including any material amendment to existing service delivery agreements
- Particulars of any proposed allocations of grants by the municipality to other municipalities, municipal entities or external mechanisms assisting the municipality in its service delivery or any other organs of state,

### **Section 18 Funding of Expenditure**

The budget may be financed only from

- Realistic expected revenue, 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

### **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 Section 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.

### **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;
- The 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 Unauthorised expenses may be authorised in an adjustments budget.

**Section 32 Unauthorised, irregular and wasteful expenditure**

Expenses may be authorised in an adjustment budget by council;

**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 derive 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

- 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.

## **6. BUDGET TRANSFERS AND VIREMENTS**

Virement Clarification:

- Virement is the process of transferring budgeted funds from one line item number to another, within the recommendation of the relevant Senior Manager to the CFO or delegated finance official, to enable the Budget Office to effect the adjustments.
- The accounting officer of the municipality may shift funds within the department from operational budgets to capital budgets at the end of the financial year to authorise any unauthorised expenditure by means of an adjustments budget approved by the council i.e. shift funds within/between the votes without changing the total budget.
- All virement proposals must be completed on the appropriate documentation and forwarded to the relevant Finance Officer for checking and implementation.
- Budget transfers within the same vote shall be requested by the Head of

Department, recommended by the Chief Financial Officer and approved by the Municipal manager.

- All virements must be signed by the Head of Department within which the vote is allocated.
- All documentation must be in order and approved before any expenditure can be committed and incurred (Section 79 MFMA).
- No virements of funds across votes (directorates) will be accommodated during the year unless within the adjustments budget.
- No budget transfers or virement shall be made to or from salaries except with the prior approval of the Chief Financial Officer in consultation with the Senior Manager Corporate Services and approved by the Municipal Manager.
- The budget for personnel expenditure may not be increased without prior approval of the Chief Financial Officer after consultation with the Senior Manager Corporate Service and approved by the Municipal Manager.

## Budget and Virements Policy

---

- Savings on allocations earmarked for specific operating and capital projects may not be used for other purposes except with the approval of council.
- Heads of Departments may utilize a saving in the amount appropriated under a main expenditure category (e.g. Salaries, General Expenses, Repairs & Maintenance, etc.) within a vote which is under their control towards the defrayment of excess expenditure under another main expenditure category within the same vote, with the approval of the Chief Financial Officer or such senior delegated official in the Budget & Treasury Department.
- The amount of a saving under a main expenditure category of a vote that may be transferred to another main expenditure category may not exceed ten per cent of the amount appropriated under that main expenditure category.
- Savings in an amount appropriated for capital expenditure may not be used to defray operational expenditure.
- Virements between votes shall be included in the adjustment budget.
- No funds can be viremented between the different types of budgets (e.g. virements can only be made from basic capital to basic capital and operating to operating).
- Virements should not result in adding new projects to the Capital Budget.
- Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted.
- Virement cannot be permitted on the non-cash items like Depreciation, Debt impairment.
- Virement cannot be permitted on the cash items like Personnel expenditure, Bulk purchases, Interest charges, Revenue forgone, Insurance and VAT.



**7. APPLICABILITY OF THE MUNICIPALITY**

The policy, will apply to all the following:-

- 7.1 Executive Mayor/Deputy Executive Mayor/Speaker/Chief Whip/Member of Mayoral Committee (MMC) and all other Councillors
- 7.2 Municipal Manager/Heads of departments and all other municipal officials.

**8. RESPONSIBILITIES OF REPRESENTATIVES**

Every representative who is involved in the budget process as per the MFMA must comply with this policy

**9. BUDGET PRINCIPLES TO BE FOLLOWED**

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.

## Budget and Virements Policy

---

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:

Un-appropriated 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.

Each annual and adjustments budget shall reflect realistic excess, however nominal, of current revenues over expenses.

Any un-appropriated 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 un-appropriated 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.

## Budget and Virements Policy

---

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 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 the COIDA, skills development levies payable).

Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits shall be separately prepared, and shall not exceed 30% 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 councillors 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.

In preparing its revenue budget, the municipality shall strive to maintain the aggregate revenues from property rates at not less than 25% of the aggregate revenues budgeted for.

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 than the relevant increase in the consumer price index.

### **10. STANDARD CHART OF ACCOUNTS**

#### **10.1 BACKGROUND**

The Minister of Finance tabled before Parliament Local Government Municipal Finance Management Act, 56 of 2003, Regulations on Standard Chart of Accounts as per Government Notice 35377, Regulations that aimed at regulating the implementation of m-SCOA by all municipalities on the 1st of July 2017. This is one of the largest initiatives and projects undertaken by National Treasury, and it is by far, the largest and most impactful reform ever introduced.

Unlike the Budgeting and Reporting Reforms, the m-SCOA deals with both the budgeting (policy and compliance) and financial reporting (accounting framework), and in more times than not, the budgeting principles do not necessarily conform to the accounting reporting framework. The budgeting process is political, and entails community involvement, whereby the presentation must be able to meet the requirements and level of understanding and interpretation by the Executive, Political Leadership and community at large. After budget has been implemented, the performance is reported in the form of annual financial statements with different reporting regulatory framework and such statements are being audited by the Auditor General in line with the Public Audit Act.

##### **10.1.1 Object of SCOA Regulations**

1. The object of these Regulations is to provide for a national standard for the uniform

recording and classification of municipal budget and financial information at a transaction level by prescribing a standard chart of accounts for municipalities and municipal entities which:-

- (a) is aligned to the budget formats and accounting standards prescribed for municipalities and municipal entities and with the standard charts of accounts for national and provincial government; and
- (b) enables uniform information sets recorded in terms of national norms and standards across the whole of government for the purposes of national policy coordination and reporting, benchmarking and performance measurement in the local government sphere.

### **10.1.2 Application of the SCOA Regulations**

1. These Regulations apply to all municipalities and municipal entities.

### **10.1.3 Municipal objectives/outcomes**

The project objectives or expected outcomes are clear and straight forward and are listed below;

1. To classify the general ledger of the municipality in terms of m-SCOA format as per the latest version as will be advised by National Treasury
2. To ensure that the financial information of the municipality is preserved for years to come as required by South African Revenue Services, National Archives Act, FICA, FSB, Usury Act etc.
3. To ensure that the current vendor is able to test system compliance using the municipality as a platform for this purpose
4. To ensure that post-implementation assessment report is compiled that will inform versions after the pilot version
5. To ensure proper recording and classification of municipal transactions and to enable appropriate decision making
6. To enable the municipality to prepare financial statements that will be comparative and fairly present the financial position and performance of the municipality at any given point in time
7. To enable the municipality to continue with its reporting obligations in terms of Section 71, and 52(d) of MFMA accordingly.

### 10.1.4 mSCOA Budget:

Comprises seven (7) segments that are to be complied with on a transaction (posting) level.

No further breakdown is required subsequent to transaction posting.

#### 4.5.1 Project Segment

The project segment is linked to the IDP of the municipality. Due to the IDP being a 5 year plan, the need for a project segment was identified. The accumulation of project-related transactions in a single posting-level account results in a classification not relating to "what is bought".

The Project Segment distinguishes projects according to the nature of the expense whether it is capital or an operational expense.

#### 4.5.2 Function Segment

The Function Segment is the location within the SCOA for creating the "vote" structure standardised for all municipalities. This does not replicate the current vote structure, but indicate what function is being performed

#### 4.5.3 Municipal Standard Classification

Non Standardised segment. "Against which organisational vote or sub-vote should the transaction be recorded"? This segment contains the "votes" set-up by the municipality based on the organisational structure in place for the municipality. The "vote" structure needs to be aligned to the municipality's organisational structure. Municipal revenue, operating and capital expenditure are then classified in terms of each of these votes. This means it is possible to present the operating surplus or deficit for each vote, along with information on the proposed capital budget. If a municipality delivers services within a particular vote structure these tables enable, useful performance information based on the vote structure

#### 4.5.4. Item Segment

The item segment relates to elements stemming from the Statement of Financial Performance and the Statement of Financial Position. For mSCOA purposes these comprise of 4 sub-categories i.e. Revenue, Expenditure; Gains and Losses and Assets, Liabilities and Net Assets.

#### 4.5.5 Funding Segment

The funding segment is applies to the different sources of funding relevant to the varying transaction types. It is broken into 6 sub-categories

Revenue

Commercial Services

Transfers and Subsidies

Borrowing

Cash Backed Reserves

Non-funding Transactions

#### 4.5.6 Regional indicator

The regional indicator is location driven. This is broken into 3 sub-categories:

- Administrative or Head Office (incl. Satellite Offices)
- Wards (specific to municipality)
- Whole of the municipality

### 4.5.7. Costing Segment

The Costing segment provides for the classification of indirect (secondary) costs that do not directly attribute to the output and are sometimes referred to as activity based recoveries, for example labour, vehicle, plant and equipment, internal service charges (internal billings), and departmental charges for example office rental, audit fees and procurement. Indirect cost (secondary cost) is initially recorded as primary cost within the "Item" segment and funded according to the indicator selected in the "Fund" segment. The costing indicator within the "costing" Segment provides for the re-distribution of these primary costs between functions (no change in the funding source), together with indicators provided in the "Cost" segment. The "Project" segment provides the classification link to these indicators and specific projects. The purpose for including this segment in SCOA is to provide for the recording of full cost reflection for at least the four core municipal functions being electricity, water, waste water and waste management services, as a minimum requirement (for now).

## **11. RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER (DELEGATED BY ACCOUNTING OFFICER)**

Without derogating in any way from the legal responsibilities of the municipal manager as accounting officer, the Chief Financial Officer shall be responsible for preparing the draft annual capital and operating budgets (including the budget components required for the ensuing 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.

The municipal manager shall ensure that all heads of departments provide the inputs required by the Chief Financial Officer into these budget processes.

The Chief Financial Officer 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.

The Chief Financial Officer 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.

The Chief Financial Officer 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.

The Chief Financial Officer 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.

The Chief Financial Officer 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. The Chief Financial Officer shall submit these monthly reports to the mayor, finance committee and executive committee, and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act.

The Chief Financial Officer 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.

The Chief Financial Officer 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.

The Chief Financial Officer 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.

The Chief Financial Officer shall ensure that the cost of indigence relief is

separately reflected in the appropriate votes.

The Chief Financial Officer 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.

The Chief Financial Officer shall ensure that the cost of any relief/rebate is separately reflected in the appropriate mSCOA segments.

## **12. INTERPRETATION OF THE POLICY**

- 12.1 All words contained in this policy shall have the ordinary meaning attached thereto, unless the definition or context indicates otherwise.
- 12.2 Any dispute on interpretation of this policy shall be declared in writing by any party concerned.
- 12.3 The Municipal Manager shall give a final interpretation of this policy in case of written dispute.
- 12.4 If the party concerned is not satisfied with the interpretation, a dispute may then be pursued with the South African Local Government Bargaining Council.

## **13. VIOLATION / NON-COMPLIANCE OF THE POLICY**

- 13.1 Violation of or non-compliance with this policy will give a just cause for disciplinary steps to be taken.
- 13.2 It will be the responsibility of Council to enforce compliance with this policy.

## **14. PERMANENT/TEMPORAL WAIVER OR SUSPENSION OF THE POLICY**

This policy may be partly or wholly waived or suspended by the Municipal Council on temporary or permanent basis.

Notwithstanding clause No. 11.1 the Municipal Manager/Council may under circumstances of emergency temporarily waive this policy subject to reporting of such waiver or suspension to Council.

## **15. COMPLIANCE AND ENFORCEMENT**

## Budget and Virements Policy

---

14.1 Violation of or non-compliance with this policy will give a just cause for disciplinary steps to be taken.

14.2 It will be the responsibility of Council to enforce compliance with this policy.

### **16. AMENDMENT AND/OR ABOLITION OF THIS POLICY**

This policy may be amended or repealed by Council as it may deem necessary.