



**TOKOLOGO LOCAL MUNICIPALITY**

**DRAFT**

**BUDGET POLICY**

**2024/2025**

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## **DEFINITIONS**

### **"Accounting Officer"-**

The person appointed in terms of section 82(1) (a) or (b) of the Municipal structures Act;

### **"Allocation"**

- a) a municipality's share of the local government's equitable share referred to in section 214(1)[a] of the Constitution; an allocation of money to a municipality in terms of section 214(1) (c) of the Constitution;
- b) an allocation of money to a municipality in terms of a provincial budget; or
- c) 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"**

The Act of Parliament, which must be enacted annually in terms of section 214 (1) of the Constitution;

### **"Approved budget,"**

An annual budget-

- (a) Approved by a municipal council. or
- (b) Includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

### **"Basic Municipal Service"**

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"**

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 transfer"**

Transfer of funding within a function / vote.

### **"Budget Year"**

The financial year of the municipality for which an annual budget is to be approved in terms of section 16(1) of the MFMA;

### **"Chief Financial Officer"**

A person designated in terms of section 80(2) (a) of the MFMA;

### **"Councillor"**

A member of a municipal council;

### **"Creditor"**

A person to whom money is owed by the municipality;

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**“Current Year”**

A financial year has not ended

**"Commitment"**

A tender has been awarded and / or

- (a) an order has been placed for goods and services and / or
- (b) consultants / a service provider has been appointed and / or
- (c) expenditure has been incurred or services have been provided
- (e) a payment has been made for goods and services

**"Delegation"**

In relation to a duty, includes an instruction or request to perform or to assist in performing the duty;

**"Executive Mayor"**

The Councillor elected as the Mayor of the municipality in terms of section 55 of the Municipal structures Act

**"Financial recovery plan"**

A plan prepared in terms of section 141 of the MFMA

**"Financial statements"**

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"**

A twelve months period commencing on 1 July and ending on 30 June each year

**"Financing agreement"**

Includes any loan agreement, lease, and instalment 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"**

Expenditure that was made in vain and would have been avoided had reasonable care been exercised

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**"Irregular expenditure"**

- (a) expenditure incurred by a 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 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 "unauthorized expenditure";

**"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",**

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:

**"Long-term debt"**

Debt repayable over a period exceeding one year;

**"Municipal council" or "council"**

The council of a municipality referred to in section 18 of the Municipal Structures Act;

**"Municipal debt instrument"**

Any note, bond, debenture or other evidence of indebtedness issued by a municipality, including dematerialized or electronic evidence of indebtedness intended to be used in trade;

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**"Municipal entity"**

Has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition); "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 service"**

Has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

**"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;

**"Official"**, 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;

**"Overspending"**-

- (a) 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 maybe;
- (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 of the MFMA. means causing expenditure under that section to exceed the limits allowed in subsection (5) of this section:

**"Past financial year"** means the financial year preceding the current year.

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**"Quarter"**

means any of the following periods in a financial year;

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

**"Service Delivery and Budget Implementation Plan"**

A detailed plan approved by the Mayor of a municipality in terms of section 53(1) I (ii) of the MFMA for implementing the municipality's delivery of municipal services and 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; and
- (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) I of the MFMA;

**"Short-term debt"**

Debt repayable over a period not exceeding one year.

**"Standards of generally recognized accounting practice",**

An accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board "Unauthorised expenditure", means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11 (3) of the MFMA, and includes-

- (a) overspending of the total amount appropriated in the municipality's approved budget; overspending of the total amount appropriated for a vote in the approved budget;
- (b) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (c) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (d) 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
- (e) a grant by the municipality otherwise than in accordance with the MFMA;

**"Virement"**

Transfer of funds between votes

**"Vote"**

- (a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different Directorates or functional areas of the municipality; and

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(b) which specifies the total amount that is appropriated for the purposes of the Directorate or functional area concerned.

## **1. Objective**

The objective of this policy is to set out the budgeting principles and procedures which the municipality will follow in preparing each annual budget, as well as the adjustment budget.

## **2. Compliance with Legal Provisions**

In the process of preparing the budget, the Municipality, the Mayor, political office bearers, Municipal Manager, Chief Financial Officer and other officials shall comply with all relevant legal requirements, including in particular:

2.1. The provisions of Chapter 4 (Sections 15 to 33) of the Local Government: Municipal Finance Management Act, 2003 (“the MFMA”), as well as Sections 42, 43, 52, 53,54,55, 68, 69, 70, 71, 72, 75, 80, 81 and 83 thereof; and

2.2. The Municipal Budget and Reporting Regulations (“the Regulations”) published in terms of Section 168 of the MFMA under General Notice 393 of 2009; and

2.3. All relevant budget-related circulars and notices issued by the National Treasury.

## **3. Budget Steering Committee**

3.1. The Municipal Manager of the Municipality shall establish a Budget Steering Committee as required by Regulation 4 of the budget Regulations.

3.2. The function of the Budget Steering Committee is to provide technical assistance to the Mayor in discharging the responsibilities set out in Section 53 and elsewhere in the MFMA.

## **4. Budget –Related Policies**

4.1. The Municipal Manager must ensure that budget related policies of the Municipality, or any necessary amendments to such policies, are prepared for tabling in the council by the applicable deadline specified in terms of Section 21(1) (b) of the MFMA.

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4.2. The Municipality may consult with professional bodies and advisors for purposes of preparing such policies.

4.3. Policies that affect or are affected by the annual budget include the following:

- Indigent subsidy policy
- Budget Policy
- Investment and Cash Management Policy
- Credit Control Policy
- Tariff policy
- Property rates policy
- Virement Policy

## **5. Delegations and Responsibility for Implementation**

5.1. All such powers as may be necessary for the accounting officer and the chief financial officer to carry out their respective responsibilities under this policy shall be delegated or sub delegated, as the case may require, to them in accordance with the relevant provisions of the MFMA and the Municipal Systems Act and recorded in the appropriate register of delegations.

5.2. The Municipal Manager shall be responsible for the implementation of this policy, provided that the Municipal Manager shall delegate such powers to the Chief Financial Officer.

## **6. Commencement**

This policy will be effective on the date of adoption by Council.

## **7. Budget Time Schedule**

7.1. The Mayor of the municipality shall table the budget time schedule as required by Section 21 (1) (b), for the adoption by council

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7.2. Such time schedule shall indicate the target dates for the draft revision of the IDP and the preparation of the annual budget for that budget year, The target dates shall follow the prescriptions of the Municipal Finance Management Act.

7.3. The Chief Financial Officer shall be responsible for ensuring that the time schedule is adhered to.

## **8. Budget to be balanced**

The annual or adjustments budget shall be approved by the council only if it has been properly balanced, that is, if the sources of finance which are realistically envisaged to fund the budget equal the proposed expenses.

## **9. Funding of Expenditure**

9.1. In accordance with the provisions of Section 18(1) of the MFMA, an annual budget may be funded only from:

9.1.1. Realistically anticipated revenues to be collected

9.1.2. Cash-backed accumulated funds from previous years' surpluses not committed for other purposes;

9.1.3. Borrowed funds, but only for capital projects.

9.2. Realistically anticipated revenues to be received from national or provincial government, national or public entities, other municipalities, municipal entities, donors or any other source may be included in an annual budget only if there is acceptable documentation that guarantees the funds, as provided by Regulation 10 (2) of the Budget regulations

9.3. All expenses, excluding depreciation expenses, shall be cash-funded.

## **10. Zero -Based Budgeting**

Except in so far as capital projects represent a contractual commitment of the Municipality extending over more than one financial year, the annual budget shall be prepared from a zero base.

## **11. Contents of Budget**

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11.1 The budget must comply with the provisions of Section 17(1) of the MFMA, and in particular:

11.1.1. The budget must be in the format prescribed by the regulations;

11.1.2. The budget must reflect the realistically expected revenues by major source for the budget year concerned;

11.1.3. The expenses reflected in the budget must be divided into the votes of the various departments of the municipality;

11.1.4. The budget must also contain:

11.1.4.1. The foregoing information for the two years immediately succeeding the financial year to which the budget relates;

11.1.4.2. The actual revenues and expenses for the previous financial year, and

11.1.4.3. The estimated revenues and expenses for the current year.

11.2. The budget must be accompanied by all of the documents referred to in Section 17(3) of the MFMA.

11.3. For the purposes of Section 17(3)(k) of the MFMA, the salary, allowances and benefits of each person referred to therein must be stated individually.

## **12. Capital and Operating Components**

12.1. The annual budget and adjustments budget shall, as required by Section 17(2) of the MFMA consist of:

12.1.1. The capital component, and

12.1.2. The operating component.

12.2. The operating component shall duly reflect the impact of the capital component on:

12.2.1. Depreciation charges;

12.2.2. Repairs and maintenance expenses; 12.2.3.

Interest payable on external borrowings; and

12.2.4. Other operating expenses.

12.3. Before approving the capital budget component of the annual or adjustments budget, the council shall consider the impact of the capital component on the present and future operating budgets of the municipality in relation to the items referred to in 12.2.1 to 12.2.4.

12.4. Each department head shall, prior to providing for any expenditure in respect of any capital item in the budget of his or her department's budget, and in any event no later than 31 January prepare and submit to the Chief Financial Officer a business plan relating to such capital item,

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12.5. which business plan shall contain the following information regarding such item:

- 12.5.1. A full description;
- 12.5.2. Its purpose;
- 12.5.3. The expected beneficiaries;
- 12.5.4. Alternative means of providing the same benefits;
- 12.5.5. An acquisition, construction and implementation plan ( as applicable);
- 12.5.6. The expected useful life;
- 12.5.7. The principal cost;
- 12.5.8. The sources of funding;
- 12.5.9. A schedule of financing costs;
- 12.5.10. A maintenance plan;
- 12.5.11. A schedule of maintenance costs;
- 12.5.12. A depreciation schedule;
- 12.5.13. Insurance costs;

### **13. Capital Replacement Reserve**

13.1. The council shall establish a capital replacement reserve for the purpose of financing capital projects and the acquisition of capital assets.

13.2. Such reserve shall be established from the following sources of revenue:

- 13.2.1. Inappropriate cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- 13.2.2. interest on the investments of the asset financing reserve, appropriated in terms of the banking and investments policy;
- 13.2.3. Further amounts appropriated as contributions in each annual or adjustments budget;  
and
- 13.2.4. net gains on the sale of fixed assets.

### **14. Financing of Capital Budget**

14.1. 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.

14.2. The provisions of Regulation 11 of the Regulations must be complied with in relation to the funding of capital expenditure.

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## **15. Determination of Votes**

15.1. In preparing the operating budget, the Chief Financial Officer shall determine the number and type of votes to be used, provided that in so doing the chief financial Officer shall properly and adequately reflect the organizational structure of the municipality, and further in so doing shall comply with the budget format prescribed by the Regulations.

15.2. Each departmental head shall be responsible for determining the line items to be shown under each vote, subject to the approval of the Chief Financial Officer.

## **16. Provisions for Leave and employee benefits, Bad Debts and Obsolescence**

16.1. The municipality shall establish and maintain a provision for accrued leave entitlements 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, as well as for staff benefits, including post-retirement benefits.

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

16.3. The municipality shall establish and maintain a provision for the obsolescence and deterioration of stock, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

## **17. Provision for Maintenance**

17.1. 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.

17.2. Notwithstanding anything contained to the contrary in any other policy of the Municipality, no funds budgeted for maintenance may be used or transferred for any other purpose without the express consent of the CFO.

## **18. Salaries and Allowances**

The budget for salaries, allowances and salaries-related benefits shall be separately prepared, and shall not exceed 40% of the aggregate operating budget component of the annual or

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adjustments budget. For purposes of applying this principle, the remuneration of political office bearers and other councillors shall not be included in this limit.

## **19. Depreciation and Finance Charges**

19.1. Depreciation and finance charges together shall not exceed 5% of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget.

19.2. 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.

19.3. The Chief Financial Officer shall determine the depreciation expenses to be charged to each vote, and the apportionment of interest payable to each vote.

## **20. Indigent Relief**

The cost of indigent relief must be separately reflected in the appropriate votes.

## **21. Allocations from Other Organs of State**

21.1. Allocations from other organs of state shall be properly reflected in the annual and adjustments budget, and the estimated expenses against such allocations (other than the equitable share) must be appropriately recorded.

21.2. The provisions of Regulation 10(2) of the Regulations must be complied with in regard to anticipated revenues to be received from national or provincial government, national or public entities, other municipalities, municipal entities, donors

## **22. Rates as a Source of Income**

In preparing its revenue budget, the Municipality shall strive to maintain realistic revenues from property rates in terms of its property rates policy.

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### **23. Impact of Rates and Tariffs**

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.

### **24. Determination of Growth Factors**

The Chief Financial Officer shall, with the approval of the mayor and the municipal manager, and considering the municipality's current financial performance, determine the recommended aggregate growth factor(s) using the National Treasury Guidelines.

### **25. Tabling of Annual Budget**

The Annual budget must, as required by Section 16 of the MFMA, be tabled at a council meeting at least 90 days before the start of a budget year, and when tabled must, as required by Regulation 14(1) of the Regulations:

25.1. be in the format in which it will eventually be approved by council; and 25.2. be credible and realistic such that it is capable of being approved and implemented as tabled.

### **26. Publication of Annual Budget**

26.1. In accordance with Section 22 of the MFMA, the Municipal Manager shall ensure that immediately after the annual budget is tabled in the Council:

26.1.1. The budget is made public in accordance with the provisions of the Local Government: Municipal Systems Act;

26.1.2. The local community is invited to make submissions in regard to the budget;

26.1.3. The budget is submitted to the National Treasury and Provincial Treasury in printed and electronic formats;

26.1.4. The budget is submitted to any prescribed organs of state and to other Municipalities affected by it.

26.2. In addition, the Municipal Manager must comply with the provisions of Regulation 15 of the Regulations.

### **27. Consultations on Tabled Budgets**

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27.1. The Municipality shall, after the annual budget is tabled, consider the views of the local community, the National and Provincial Treasuries, organs of state and municipalities which made submissions on the budget, as required by Section 23 of the MFMA, and shall comply with all other requirements of that section.

27.2. The Mayor must for purposes of the abovementioned Section 23 submit to the council the report and comments referred to in Regulation 16 of the Regulations.

## **28. Approval of Annual Budget**

28.1. The Council shall approve the budget in accordance the provisions of Section 24 of the MFMA.

28.2. Before approving the budget, the council shall consider the full implications of the budget, as required by Regulation 17 of the Regulations.

## **29. Adjustment Budgets**

If an adjustment budget is required as contemplated in Section 69(2) of the MFMA, such adjustment budgets and the process of adopting it shall comply with the provisions of Regulations 21 to 27 of the Regulations.

## **30. SDBIP and Performance Agreements**

As required by section 69(3) of the MFMA, the accounting officer must by no later than 14 days after the approval of the annual budget submit to the mayor:

30.1. A draft Service Delivery and Budget Implementation Plan for the year in question; 30.2. Drafts of the annual performance agreements as required by Section 57 of the Municipal Systems Act for the managers referred to in that section.

## **31. Budget Statements, Quarterly Reports and Mid-year budget and performance Assessments**

31.1. The Chief Financial Officer shall compile the monthly budget statements as required by Section 71 of the MFM

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**31.2. Such Statements shall:**

31.2.1. Be in the format prescribed by Regulation 28 of the Regulations;

31.2.2. If they are submitted by the mayor to the council in terms of Section 71(1) of the MFMA, be accompanied by a mayor's report in the format prescribed in Regulation 29 of the Regulations;

31.2.3. Be placed on the Municipality's website.

31.3. The Mayor's quarterly report on the implementation of the budget and the financial state of affairs of the Municipality as required by Section 52(d) of the MFMA must comply with the requirements of Regulation 31 of the Regulations and be published in accordance with Section 75(1) (k) of the MFMA and Regulation 32 of the Regulations.

31.4. Mid-year budget and performance assessments of the Municipality as required by Section 72 of the MFMA must be in the format, be published, and be submitted as required by Regulations 32, 33 and 34 respectively of the Regulations.

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