

uMFOLOZI LOCAL MUNICIPALITY



DRAFT BUDGET FUNDING & RESERVES POLICY

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1. PREAMBLE

In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 4 on Municipal Budgets, Subsection (16), states that the council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year. According to subsection (2) of the Act concerned, in order to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

In terms of Sections 18 and 19 of the Municipal Finance Management Act (Act No 56 of 2003) (MFMA), an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes. and
- Borrowed funds, but only for capital projects.

Furthermore, spending on a capital project may only be commenced once the funding sources have been considered, are available and have not been committed for other purposes.

The requirements of the MFMA are therefore clear in that the budget must be cash – funded i.e. cash receipts inclusive of prior cash surpluses must equal or be more than cash paid.

This policy must be read, analyzed, explained, interpreted, implemented and understood against this legislative background. The budget is a tool for planning and control it plays a critical role in an attempt to realize diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro-economic and fiscal policy fundamentals. In brief, the conceptualization and the operationalization of the budget must be located within the national government's policy framework.

2. DEFINITIONS

"Accounting Officer"-means the Municipal Manager;

"Allocation", means-

- a municipality's share of the local government's equitable share referred to in section 214(l) (a) of the Constitution;
- an allocation of money to a municipality in terms of section 214(1) (c) of the Constitution;
- an allocation of money to a municipality in terms of a provincial budget; or
- 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 approved by a municipal council, or includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA.

"Budget-related Policy" means a policy of a municipality affecting or affected by the annual budget of the municipality, including:

- (a) Virement policy
- (b) Property rates
- (c) Credit control and debt collection policy
- (d) Indigent policy
- (e) Supply chain management policy
- (f) Tariff policy
- (g) Funding and reserves policy
- (h) Investment and Cash Management policy

"Budget Year" means 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" means a person designated in terms of section 80(2) of the MFMA;

"Creditor" means a person to whom money is owed to by the municipality;

"Current year" means the financial year, which has already commenced, but not yet ended;

"Financial recovery plan" means a plan prepared in terms of section 141 of the MFMA

"Financial year" means a twelve months period commencing on 1 July and ending on 30 June each year

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

"Irregular expenditure", means-

- (a) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA Act, 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;

"Local community" has the meaning assigned to it in section 1 of the Municipal Systems Act;

"mayor" means the councilor elected as the mayor of the municipality in terms of section 55 of the Municipal Structures Act;

"Municipal council" or "council" means the council of a municipality referred to in section 18 of the Municipal Structures Act;

"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 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;

"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 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 of the MFMA, means causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

"Prior financial year" means the financial year preceding the current year; "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;

"Service delivery and budget implementation plan" means a detailed plan approved by the mayor of a municipality in terms of section 53(l)(c)(ii) of the MFMA 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) of the MFMA;

"Standards of generally recognised accounting practice," means an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board

"unauthorized 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;
- (b) Overspending of the total amount appropriated for a vote in the approved budget;
- (c) Expenditure from a vote unrelated to the department or functional area 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 the MFMA;

3. OBJECTIVES

The objective of the budget policy is to set out:

- 3.1 The budgeting principles which the municipality will follow in preparing each medium term revenue and expenditure framework budget,
- 3.2 the responsibilities of the mayor, the accounting officer, the chief financial officer and other senior managers in compiling the budget
- 3.3 To establish and maintain procedures to ensure adherence to uMofolozi Local Municipality's Integrated Development Plan (IDP) review and budget processes.
- 3.4 Sets out the assumptions and methodology for estimating revenue

4. BUDGETING PRINCIPLES

- 4.1 The municipality shall not budget for a deficit and should also ensure that revenue projections in the budget are realistic taking into account actual collection levels on previous years. Other specific principles includes:-
 - (a) The budget must be cash – funded, i.e. revenue and expenditure projections must be realistic and the provision for impairment of receivables must be calculated on proven recovery rates;
 - (b) Growth parameters must be realistic and be based on historic patterns adjusted for current reliable information;
 - (c) Tariff adjustments must be fair, taking into consideration general inflation indicators as well as the geographic region's ability to pay;
 - (d) Revenue from Government Grants and Subsidies must be in accordance with the amounts promulgated in the Division of Revenue Act, proven provincial transfers and any possible transfers to or from other municipalities. For the purpose of the Cash flow budget any National or Provincial grants that have been re-appropriated for roll-over purposes must be excluded from the calculation as it must be included in changes in Cash and Cash Equivalents and Payables. Furthermore, in the budget the total grants recognised as revenue must equal the total expected expenditure from grants, inclusive of capital expenditure and VAT as per directive given in MFMA circular 48.
 - (e) Projected revenue from services charges must be reflected as net (all billing less revenue foregone, which is free basic services, discounts and rebates).
 - (f) Projected revenue from property rates must include all rates to be levied, but rebates and discounts must be budgeted for as either revenue foregone or a grant, as per directive in MFMA Budget Circular 51, depending on the conditions of the exemption, rebate or reduction. For the purpose of the Cash flow Budget all rebates and discounts must be deducted from the projected revenue.
 - (g) Only changes in fair values related to cash may be included in the cash flow budget. Changes to unamortised discount must be included in the Operating Budget but excluded in the cash flow budget.

- (h) Employee related costs include contributions to non-current and current employee benefits. It is acknowledged that the non-current benefits' requirements are well above the initial cash capabilities of the municipality, and it is therefore determined that provision for the short term portion of employee benefits, as well as an operating surplus calculated at 5% of the prior year balance of the long-term benefits, be included in the operating budget, in order to build sufficient cash for these requirements. The cash portion of the employee benefits must be accounted for in an "Employee Benefits Reserve".
 - (i) Depreciation must be fully budgeted for budgeted for in the operating budget. In order to ensure a sufficient accumulation of cash for the replacement of Property, Plant and Equipment and Intangible Assets, the amount of depreciation on assets funded from own sources, excluding assets funded from grants, public contributions and external loans must be reflected as a surplus on the cash flow budget.
 - (j) Contributions to provisions (non-current and current) do not form part of the cash flow. It is however, necessary to provide for an increase in cash resources in order to comply with the conditions of the provision at the time when it is needed. It is therefore a requirement that the contribution to current provisions, as well as 20% of the prior year balance of the non current provision, is budgeted as cash surpluses until the necessary funding level is obtained.
- 4.2 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 department.
- 4.3 uMfolozi Local Municipality shall prepare and adopt a three-year budget (medium term revenue and expenditure framework (MTREF)) and be reviewed annually and approved by Council.
- 4.4 The MTREF budget must at all times be within the framework of the Municipal Integrated Development Plan.
- 4.5 The MTREF budget must be realistic and credible, being prepared concurrently on a cash basis.

5. BUDGET PREPARATION PROCESS

5.1 FORMULATION OF THE BUDGET

- 5.1.1 The accounting Officer with the assistance of the Chief Financial Officer and the Manager responsible for IDP shall draft the IDP process plan as well as the budget timetable for the municipality including municipal entities for the ensuing financial year.
- 5.1.2 The accounting officer must ensure that all heads of departments provides the budget inputs required by the Chief financial officer for the budget process.
- 5.1.3 The mayor shall table the IDP process plan as well as the budget timetable to Council by 31 August each year for approval (10 months before the start of the next budget year).
- 5.1.4 IDP process plan as well as the budget timetable shall indicate the key deadlines for the review of the IDP as well as the preparation of the medium term revenue and expenditure framework budget and the revision of the annual budget, Such target dates shall follow the prescriptions of the Municipal Finance Management Act, MBRR as well as the guidelines set by National Treasury.
- 5.1.5 The mayor shall convene a strategic workshop in September/October with the executive committee and senior managers in order to determine the IDP priorities which will form the basis for the preparation of the MTREF budget taking into account the financial and political pressures facing the municipality. The mayor shall table the IDP priorities with the draft budget to Council.
- 5.1.6 The Mayor shall table the draft IDP and MTREF budget to council by 31 March (90 days before the start of the new budget year) together with the draft resolutions and budget related policies
- 5.1.7 The budget must be in the prescribed format by the minister of finance MBRR, and must be divided into capital and operating budget.
- 5.1.8 The budget must reflect the realistically expected revenues by major source for the budget year concerned.
- 5.1.9 The expenses reflected in the budget must be divided in GFS format and by departments by vote.
- 5.1.10 The budget e.g. for 2015/16 must also contain information related to the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses (audited outcomes) for 3 prior years, and the estimated revenues and expenses for the current year in terms of the MBRR.

5.2. PUBLIC PARTICIPATION PROCESS

Immediately after the draft annual budget has been tabled, the accounting officer must make the budget and other-related documents public and must invite the local community, stakeholder organizations to make representation to the budget.

The accounting officer must also immediately submit the tabled budget in both printed and electronic formats to national treasury, and provincial treasury.

5.3 CONSULTATIONS ON THE TABLED BUDGETS

After the budget has been tabled the municipality must consider the views of local community, national and provincial treasuries which have made submissions to the budget and the mayor must respond to the submissions received and if necessary revised the draft budget.

5.4 APPROVAL OF THE BUDGET

5.4.1 Council must consider the approval of the budget before the start the start of the budget year to which the budget relates.

5.4.2 The budget must be tabled together with the adoption of the followings resolutions;

- (a) imposing municipal tax for the budget year;
- (b) setting of municipal tariff for the budget year;
- (c) approving measurable performance objectives for revenue from each source and for each department in the budget;
- (d) the projected cash flows for the financial year by revenue sources and expenditure votes;
- (e) any changes to the municipality's IDP;
- (f) any proposed amendments to the budget-related policies;
- (g) the cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other councilors, the accounting officer, the chief financial officer, and other senior managers;
- (h) 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 organization's such as Non-Governmental Organizations, welfare institutions and so on;
- (i) particulars of the municipality's investments; and
- (j) various information in regard to municipal entities under the shared or sole control of the municipality

5.5 SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP)

5.5.1 The mayor must approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the Budget by Council.

5.5.2 The SDBIP shall include the following components:

- (a) Monthly projections of revenue to be collected for each source
- (b) Monthly projections of expenditure (operating and capital) and revenue for each vote
- (c) Quarterly projections of service delivery targets and performance indicators for each vote
- (d) Ward information for expenditure and service delivery
- (e) Detailed capital works plan broken down by ward over three years

6. CAPITAL BUDGET

- 6.1 Expenditure of a project shall be included in the capital budget if it meets the asset definition as defined in the asset management policy.
- 6.2 A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.
- 6.3 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.
- 6.4 Before approving a capital project, the Council must consider:
- (a) The projected cost of the project over all the ensuing financial years until the project becomes operational,
 - (b) Future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs).
- 6.5 Before approving the capital budget, the council shall consider:
- (a) The impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans,
 - (b) Depreciation of fixed assets,
 - (c) Maintenance of fixed assets, and
 - (d) Any other ordinary operational expenses associated with any item on such capital budget.
- 6.6 Council shall approve the annual or adjustment capital budget only if it has been properly balanced and fully funded

7. SOURCES OF FUNDING FOR CAPITAL BUDGET

The capital expenditure shall be funded from the following sources:

7.1 Revenue or Surplus

If any project is to be financed from revenue this financing must be included in the

- (a) Cash budget to raise sufficient cash for the expenditure
- (b) If the project is to be financed from surplus there must be sufficient cash available at time of execution of the project

7.2 External Loans

- 7.2.1 External loans can be raised only if it is linked to the financing of an asset;
- 7.2.2 A capital project to be financed from an external loan can only be included in the budget if the loan has been secured or if it can be reasonably assumed as being secured;

- 7.2.3 The loan redemption period should not exceed the estimated life expectancy of the asset. If this happens the interest payable on the excess redemption period shall be declared as fruitless expenditure;
- 7.2.4 Interest payable on external loans shall be included as a cost in the operating expenditure budget;
- 7.2.5 Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate;
- 7.2.6 Short term borrowing shall be taken up as a bridging finance in case where the municipality experiences a short term cash flow challenges and while the municipality is in a process of taking a long term loan;
- 7.2.7 Council shall on a regular basis procure for credit rating from respective providers;
- 7.2.8 Municipality may pledge conditional grants transfers as security for borrowing, must not exceed 40% of the total project cost, not more than 75% of the indicative conditional grants transfer can be pledged.
- 7.2.9 The municipality is disqualified to do the pledging if it is experiencing cash flows problems

7.3 Funds and Reserves

Council shall establish a fund and reserves for the purpose of financing capital projects and the acquisition of assets –Capital Replacement Reserves (CRR). Such reserves shall be established from the following sources of revenue:

- (a) unappropriated cash-backed surpluses from the budgeted statement of financial performance to the extent that such surpluses are not required for operational purposes;
- (b) Interest on the investments of the funds and reserves, appropriated in terms of the investments policy;
- (c) Additional amounts appropriated as contributions in each annual or adjustments budget; and
- (d) Proceeds on sale of disposal of assets.

7.4 Grant Funding including Public Contributions

- 7.4.1 Non capital expenditure funded from grants must be budgeted for as part of the revenue budget; Expenditure must be reimbursed from the funding creditor and transferred to the operating and must be budgeted for as such;
- 7.4.2 Capital expenditure must be budgeted for in the capital budget;
- 7.4.3 Interest earned on investments of Conditional Grant Funding shall be capitalised if the conditions state that interest should accumulate in the fund. If there is no condition stated the interest can then be allocated directly to the revenue accounts;
- 7.4.4 Grant funding does not need to be cash backed but cash should be secured before spending can take place.
- 7.4.5 The accounting officer must evaluate the long term effect of such grants on future tariffs and if deemed necessary report to Council.

8. OPERATING BUDGET, FUNDING AND NORMS

8.1 BASIS FOR CALCULATION

- 8.1.1 The incremental approach will be used in preparing the medium term operating budget.
- 8.1.2 A cash flow management analysis and cash backing reserves shall be used to determine funding of the operating budget.
- 8.1.3 The medium term operating budget shall be realistically projected at a cash backed surplus to build internal funding reserves that will fund capital budget.

8.2 OPERATING BUDGET REVENUE

- 8.2.1 Operating budget revenue shall be funded from the following realistically anticipated revenue to be generated:
 - (a) Property rates
 - (b) Refuse removal services
 - (c) Sewerage services
 - (d) Rental of municipal facilities
 - (e) Agency fees
 - (f) Fines
 - (g) Interest on investments
 - (h) Other income
 - (i) Unconditional and conditional grants

8.3 OPERATING BUDGET EXPENDITURE AND NORMS

8.3.1 Employees related cost

- (a) The annual increase on the budget for salaries and related costs shall be based on the bargaining council agreement entered into between SALGA, representing employers and organized labour representatives and the norm must less than 30% to the total revenue less conditional grants revenue.
- (b) Provision for accrued leave entitlements equal to 100% of the accrued leave
- (c) Entitlement of officials as at 30 June of each financial year;
- (d) Provision for bad debts in accordance with its rates and tariffs policies
- (e) Depreciation and finance charges shall be charged to or apportioned only between the departments to which the projects relates.
- (f) Contributions to the above provisions in each annual and adjustments Budget

8.3.2 Finance charges

The norm on finance charges should be between 5-15% of the total operating expenditure

8.3.3 Repairs and maintenance

Repairs and maintenance must be more than 5% of the total property plant and equipment.

8.3.4 Non current liabilities

Must be less than 45% to the total operating revenue

8.3.5 Total debt

Total debt must be less than 45% to total operating revenue less grants and subsidies

8.3.6 Debt payment

Must be between 5-15% to the revenue

8.3.7 Net asset position

Must be less than 50%

When considering the draft annual budget, council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households.

9. UNSPENT FUNDS / ROLL OVER OF BUDGET

- 9.1 The appropriation of funds in an annual or adjustments budget will lapse to the extent that those funds are unspent at the end of the financial year to which the budget relates, except in case of an appropriation for expenditure made for a period longer than that financial year section 16(3) multi year budget.
- 9.2 Only unspent grant (if the conditions for such grant funding allows that) or loan funded capital budget may be rolled over to the next budget year.
- 9.3 Conditions of the grant fund shall be taken into account in applying for such rollover of funds
- 9.4 Application for rollover of funds shall be forwarded to the budget office by April each year to be included in next year's budget for adoption by Council before the start of a budget year.
- 9.5 The rollover of all unspent conditional grants will be subject to approval by National Treasury.
- 9.6 Adjustments budget referred to section 28(2)(e) of the act may only be tabled after the end of the financial year to which the roll overs relate, and must be approved by council by 25 August of the financial year following the financial year to which the roll overs relate.
- 9.7 No funding for projects funded from the Funds and Reserves shall be rolled over to the next budget year except in cases where a commitment has been made prior to the end of that particular financial year. (To be debated based on point 9.1)
- 9.8 No unspent operating budget shall be rolled over to the next budget year.

10. ADJUSTMENT BUDGET

- 10.1 Council may revise its annual budget by means of an adjustments budget if it is recommended by the Accounting Officer.
- 10.2 Council must promptly adjust its budgeted revenues and expenses estimates downwards if there is a material under-collection of revenues during the current year.
- 10.3 Council may appropriate additional revenues, which have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes, already budgeted for.
- 10.4 Council may within a prescribed framework authorize unforeseeable and unavoidable expenditure recommended by the mayor as follows:
- (a) The mayor may authorize such expenses in emergency or other exceptional circumstances;
 - (b) The municipality may not exceed 3 % of the approved annual budget in respect of such unforeseen and unavoidable expenses.
 - (c) These expenses must be reported by the mayor to the next Council meeting;
 - (d) The expenses must be appropriated in an adjustments budget; and
 - (e) Council must pass the adjustments budget within sixty days (60) after the expenses were incurred
- 10.5 Council may authorize the utilization of projected savings in one department towards spending under another department.
- 10.6 Council may correct any errors in the annual budget.
- 10.7 Council may authorize 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.
- 10.8 Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan. 16

11. BUDGET IMPLEMENTATION

11.1 MONITORING

- 11.1.1 The accounting officer with the assistance of the chief financial officer and other senior managers is responsible for the implementation of the budget, and must take reasonable steps to ensure that:
- (a) Funds are spent in accordance with the approved budget;
 - (b) Expenses are reduced if expected revenues are less than projected;
 - (c) Revenues and expenses are properly monitored.
- 11.1.2 The Accounting officer with the assistance of the chief financial officer must prepare any adjustments budget when such budget is necessary and submit it to the mayor for consideration and tabling to Council.

11.1.3 The Accounting officer 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.

11.2 REPORTING

11.2.1 Monthly budget statements

(a) The accounting officer with the assistance of the chief financial officer must, not later than ten working days after the end of each calendar month, submit to the mayor and Provincial and National 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 (section 71 report) must reflect the following:

- (i) Actual revenues per source, compared with budgeted revenues
- (ii) Actual expenses per vote, compared with budgeted expenses;
- (iii) Actual capital expenditure per vote, compared with budgeted expenses;
- (iv) Actual borrowings, compared with the borrowings envisaged to fund the capital budget;
- (v) The amount of allocations received, compared with the budgeted amount;
- (vi) Actual expenses against allocations, but excluding expenses in respect of the equitable share;
- (vii) 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;
- (viii) The remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
- (viii) 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.
- (x) The report to the National Treasury must be both in Electronic format and in a signed written document.

11.2.2 Quarterly Reports

The mayor must submit to 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.

11.2.3 Mid-year budget and performance assessment

(a) The Accounting officer 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.

- (b) The Accounting officer must then submit a report on such assessment to the mayor by 25 January each year and to Council, Provincial Treasury and National Treasury by 31 January each year.
- (c) The Accounting officer may in such report make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

12. OTHER CASH- BACKED RESERVES

The municipality approves the creation of the following reserves in addition to the CRR to provide for sufficient cash resources for future expenditure:

- (a) **Employee benefits reserve** which is to ensure sufficient cash resources are available for the future payment of employee benefits.
- (b) **Non-current provisions reserve** which is to ensure sufficient cash resources are available for the future payment of non – current provisions.
- (c) **Valuation reserve** which is to ensure sufficient cash resources are available to undertake a General Valuation as per the Municipal Property Rates Act. The contribution to this reserve should be approximately 25% of the anticipated cost of the General Valuation and the Accounting Officer is hereby delegated to determine this amount annually during the compilation of the annual financial statements.
- (d) **Other statutory reserves where it** may be necessary to create reserves prescribed by law, such as the Housing Development Fund. The Accounting Officer must create such reserves according to the directives in the relevant laws.

13. NON – CASH FUNDED RESERVES

It might be necessary to create non – cash funded reserves for a variety of reasons, including GRAP requirements. The Accounting Officer must create any reserves prescribed by the accounting standards, such as the Revaluation Reserve, if required.