UGU DISTRICT MUNICIPALITY

"The Municipality"

CASH, BANKING AND INVESTMENT MANAGEMENT POLICY

CONTENTS

1. DEFINITIONS

In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Act, has the same meaning as in that Act.

"Accounting Officer" means the Municipal Manager of Ugu District Municipality.

"Act" means the Local Government: Municipal Finance Management Act No. 56 of 2003, the Local Government: Municipal Systems Act No. 32 of 2000.

"Accounting Principles" mean stipulated guidelines to be followed.

"Acquisition" means acquiring goods or services through procurement policies.

"Agents" mean professional bodies appointed to execute a specific task on behalf of the Ugu District Municipality.

"Accounts" mean statement of moneys received.

"Assignee" means a person with a delegated authority.

"Bank" means an institution recognised by the Registrar of Banks.

"Bank Account" is the recognised statement of financial holdings on behalf of the municipality.

"Cash" means money, such as bank notes and coin, or cash equivalents.

"Chief Financial Officer" means the Chief Financial Officer of Ugu District Municipality.

"Constitution of the Republic of South Africa, Act No. 108 of 1996" means the Supreme Law of the Republic of South Africa.

"Cash Management" means efficient and effective management of funds.

"Delegate" means an official/person delegated to perform tasks on behalf of another person.

"Delegated Authority" means any person/persons/committee delegated with the authority to act for on behalf of Ugu District Municipality.

"Diversification of Investments" means investing in more, or more than one type of financial instrument.

"Investment Ethics" mean ethical framework within which investments must take place.

"Liquidity" means the ease with which financial instruments can be converted to cash or cash equivalents.

"Municipal Entity" means the developmental arm of the municipality established in terms of the Local Government: Municipal Finance Management Act No. 56 of 2003, in particular.

"Municipality" means the Ugu District Municipality.

"Ownership" means that all investments must be made in the name of the Ugu District Municipality.

"Short term investment" means a financial instrument with a lifespan or maturity of less than or equal to1 year.

"Long term investment" means financial instrument with a lifespan or maturity of greater than a year.

2. OBJECTIVE OF THE POLICY

2.1 In terms of the Municipal Finance Management Act, Act 56 of 2003, Section 13(2): "Each Municipal Council and Governing body shall adopt by resolution cash, banking and investment policy regarding the investment of its cash resources not immediately required.

2.2 An Accounting Officer has an obligation to ensure that cash resources are managed as effectively, efficiently and economically as possible. Competitive investment and effective cash management ensures both short term and long-term viability and sustainability of the Municipality. Hence, it is critical for the Municipality to have its own cash, banking and investment management policy located within the local government legislative framework. This Policy should be read and understood against this background.

2.3 The primary and ~~the~~ ultimate goal of ~~the~~ investing funds is to earn the safety of returns on investment principal, an amount invested whilst managing liquidity requirements and, providing the highest return on investment at minimum risk, within the parameters of authorised instruments as per the MFMA

3. BANKING ARRANGEMNTS

3.1 Opening of a Bank Account

The Chief Financial Officer will ensure that the Municipality opens and maintains the following minimum bank accounts:

a) General Bank Account – normal municipal receipts and payments
b) External Financing Fund – to record loan receipts and accumulations towards the repayment of such loans
c) Capital Replacement reserve – this reserve must be cash backed at all times and therefore requires a separate bank account
d) Unutilised Capital Receipts – this is to account for unutilised conditional grant monies and developer contributions, requires a separate bank account and must be cash backed.
e) Consumer deposits – this is to account for consumer deposits received and must be cash backed and requires a separate bank account.
f) A specific account will be identified as a primary bank account and all the allocations from national, provincial and other spheres of government will be deposited into this account

3.2 Management of a Bank Account

Only the Accounting Officer or his/her delegate is authorised to withdraw money from the Municipality's bank account and the delegated powers shall be in accordance with limits which will be specified by the Accounting Officer

The responsibility for the management of all the Municipal bank accounts will be allocated by the Chief Financial Officers to the officials of the Treasury department in accordance with their job descriptions. The Chief Financial Officer or his/her delegate will review reconciliations of all the Municipal bank accounts on a monthly basis.

4. CASH MANAGEMENT

4.1 All monies received by the Municipality must be deposited into the Municipal primary bank account promptly.

The Chief Financial Officer will establish an internal control procedure for the operation and maintenance of the following process with regards to cash management:

a) Receipting, and banking of and reconciliations of daily cash and cheques
b) Returned cheque register
c) Unallocated receipts/deposit registers

4.2 The Chief Financial Officer, inter-alia, has to ensure financial viability and sustainability of the Municipality. In order to achieve this in a sustainable manner, the Chief Financial Officer must ensure that internal financial systems and controls are in place that will enable the Municipality to detect the mismanagement of funds.

4.3 Cash Collection:

4.3.1 All monies due to the Municipality must be collected as soon as possible, either on or immediately after due date, and banked on a daily basis. Cash left in the safe can pose a security risk, could necessitate additional insurance coverage and does not earn any interest. Special deposits should be arranged for larger amounts to ensure that these are banked on the next working day they are received.

4.3.2 All monies collected by the Council must be banked in the primary bank account of the Municipality.

4.3.3 The respective responsibilities of the Chief Financial Officer and other Heads of Departments in this regard are defined in a procedures manual approved by the Municipal Manager and the Chief Financial Officer.

4.3.4 It is important that all monies owing to the Council are correctly reflected in the debtors system. The following control measures are necessary:

a) A well managed debtors and banking control system will ensure that funds owed to the Council are received and banked; and

b) It is also important to review debt collection performance by comparing the debtors outstanding in relation to total revenue and then comparing this to previous financial years, in order to determine whether the debt collection process is deteriorating or improving.

4.3.5 The unremittant support of and commitment to the Municipality's credit control Policy, both by the Council and the Municipality's officials, is an integral part of proper cash collections, and by approving the present Policy the Council pledges itself to such support and commitment.

4.4 Petty Cash

a) The Municipality keeps petty cash floats at two of its offices, that is Treasury office and Park Rynie office. Each petty cash float will be limited to R2 000 for the Treasury office.

b) Each transaction of petty cash shall not exceed R2 000.

c) The officials who are responsible for petty cash management will be independent of all other cash functions like cashiering

d) An imprest system of petty cash will be used.

5. CASH FLOW ESTIMATES

5.1 Before money can be invested, the Accounting Officer or his/her delegate must determine whether there will be surplus funds after meeting the necessary obligations.

5.2 To be able to make investments for any fixed terms; it is essential that cash flow estimates are prepared.

5.3 The Auditor-General requires the financial institution, where the investment is made, to issue a certificate for each investment made. This certificate must state that no commission has, nor will, be paid to any agent or third party, or to any person nominated by the agent or third party.

6. INVESTMENT ETHICS

6.1 The Accounting Officer and his/her delegate are responsible for the investment of funds and must ensure that there is no interference in these processes.

6.2 Under no circumstances may the Accounting Officer and his/her delagate ~~he/she~~ accept bribes into making an investment.

6.3 No member of staff may accept any gift unless that gift can be deemed so small that it would not have an influence on his/her relationship with the said institution.

6.4 The gift must be declared to the Municipality.

6.5 The Accounting Officer and his/her delegate must act according to their discretion and must report any serious cases of payment in kind or gifts, to the Municipal Council. Excessive gifts and hospitality should be avoided at all costs.

7. INVESTMENT PRINCIPLES

7.1 Risk management

The preservation of principal is the foremost objective of the investment program. To attain this objective, diversification is required to ensure that the Accounting Officer or his/her nominee prudently manages risk exposure. Risk profiles should be minimised by only placing investments with institutions and instruments approved by the Public Investment Commission or the Republic of South Africa: National Minister of Finance.

7.2 Prudence

Investments shall be made with care, skill, prudence and diligence. The approach must be that which a prudent person acting in a like capacity and familiar with investment matters would use in the investment of funds of like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Municipality. Investment officials are required to:

a) Adhere to written procedures and policy guidelines.
b) Exercise due diligence.
c) Prepare all reports timeously.
d) Exercise strict compliance with all legislation.

7.3 Ownership

All investments must be made in the name of the Ugu District Municipality.

7.4 Risk and Return

Although the objective of the Accounting Officer and/ Chief Financial Officer in making investments on behalf of the Municipality shall always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved in regard to both the financial institution and the investment instrument concerned. No investment shall be made with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions. Deposits shall be made only with registered deposit-taking institutions (see Gazette 27431 1 April 2005).

8. INVESTMENT PROCEDURE

8.1 After determining whether there is cash available for investment and fixing the maximum term of investment, the Municipal Manager must consider the way in which the investment is to be made.

8.2 Short-term Investment

a) The term of investment shall not be more than 12 months.
b) Quotations must be obtained from a minimum of three financial institutions, for the term of which the funds will be invested.
c) Should one of the institutions offer a better rate for a term, other than the term originally quoted for, the other institutions which were approached, must also be asked to quote a rate for the other term.
d) Quotations can be obtained telephonically, as rates generally change on a regular basis and time is a determining factor when investments are made
e) No attempts must be made to make institutions compete with each other.

8.3 Long-term investment

a) Written quotations must be obtained for investments made for periods longer than twelve months.
b) The prior approval of the Council must be obtained for all investments made for periods longer than twelve months after considering the cash requirement for the next three years.

8.4 Investment maturity

a) Upon maturity of the investment the Municipality shall do one of the following:
   i. Shall withdraw the whole amount invested.
   ii. Shall re-invest 100% interest plus the original amount that had been invested, in terms of the investment procedure, unless if Council wishes to utilise the original money or the interest.
   iii. Shall withdraw the interest and re-invest the original capital amount.

8.5 Early withdrawal of invested funds

a) When investing the funds with the banking institutions the Chief Financial Officer shall ensure that such funds are not withdrawn earlier than the maturity date agreed upon, by so doing the Municipality will not incur fruitless and wasteful expenditures in form of penalties resulting from early withdrawal of investments.

b) The Chief Financial Officer shall only withdraw funds if :

i) the banking institution concerned has agreed to exempt any penalties due to early withdrawal of investment or;

ii) the Accounting Officer may grant approval to withdraw the invested funds after he/she has satisfied himself/herself that the urgency was unforeseeable at the time when funds were invested and that the need for funds far outweighs the penalties being paid for such early withdrawal.

8.6 Call deposits and fixed deposits:

a) Before making any call or fixed deposits, the Chief Financial Officer, shall obtain quotations from at least three registered financial institutions.

b) Given the volatility of the money market, the Chief Financial Officer, shall, whenever necessary, request quotations telephonically, and shall record in an appropriate register the name of the institution, the name of the person contacted, and the relevant terms and rates offered by such institution, as well as any other information which may be relevant (for example, whether the interest is payable monthly or only on maturity, and so forth).

c) Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, e-mail or any other expedient means).

d) Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in terms of part 8 below) shall be paid over only to such institution itself and not to any agent or third party. Once the investment has been made, the Chief Financial Officer shall ensure that the Municipality receives a properly documented receipt or certificate for such investment, issued by the institution concerned in the name of the Municipality.

9. DELEGATION OF AUTHORITY

9.1 The delegation to authorise investments must distinguish between short term & long-term investments. The authority to make long-term investments as provision of security, is vested with the Municipal Council in terms of Section 48 of the MFMA and with reference to section 11(1) (h) of the MFMA dealing with cash management, the responsibility to make short investments lies with the Accounting Officer or Chief Financial Officer or any other senior financial officer authorised by either the Accounting Officer or the Chief Financial Officer/ relevant assignee.

9.2 The Local Government Municipal Systems Act of 2000, Section 3, (60) (2) states that the Municipal Council may only delegate to an Accounting Officer, Executive Committee, Mayor or Chief Financial Officer decisions to make investments on behalf of the municipality within a policy framework determined by the Minister of Finance.

9.3 The Chief Financial Officer is responsible for the investment of municipality's funds that are made under section 13 of the Municipal Finance Management Act.

10. INVESTMENT ISSUE PERTAINING TO MUNICIPAL COUNCIL APPROVAL

10.1 In the event that an investment ~~that~~ needs to be made, quotations are required from at least three registered financial institutions. In the case of telephonic quotations, the following information is required:

a) The name of the Institution,
b) The name of the person, who gave the quotation,
c) The relevant terms and rates and
d) Other facts such as if interest is payable on a monthly basis or on a compound basis upon maturation.

10.2 All investment documents must be signed by two authorised cheque signatories.

10.3 The Chief Financial Officer must ensure that a bank, insurance company or other financial institution, which at the end of a financial year holds, or at any time during a financial year held, an investment for the Municipality must:

a) Within 30 days after the end of that financial year, notify the Auditor-General, in writing, of that investment, including the opening and closing balances of that investment in that financial year and
b) Promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor-General.
c) Promptly disclose information of any possible or actual change in the investment portfolio, which could or will have a material adverse effect.

11. MUNICIPAL ENTITIES

The board of Directors of all municipal entities must adopt this cash management and investment policy. Further, the same municipal entities must submit reports, as detailed in the reporting and monitoring procedures, in the same manner as Ugu District Municipality, to the Mayor.

12. POLICY REVIEW

This Policy must be reviewed annually and be tabled to the Municipal Council for approval.

13. INTERNAL CONTROL PROCEDURES

13.1 An investment register should be kept of all investments made. The following facts must be indicated:

a) Name of institution;

b) Capital invested;

c) Date invested;

d) Interest rate; and

e) Maturity date and

f) Interests earned on investments.

13.2 The investment register and accounting records must be reconciled on a monthly basis.

13.3 The investment register must be examined on a fortnightly basis by the senior official under the direction of the Chief Financial Officer/ assignee as instructed, to identify investments falling due within the next two weeks. An investment plan must then be established for the next calendar month bearing in mind the cash flow requirements.

13.4 Interest, correctly calculated, must be received timeously, together with any distributable capital. The Chief Financial Officer or his/her assignee must check that the interest is calculated correctly, in terms of sound universally accepted financial management practices.

13.5 Investment documents and certificates must be safeguarded in a fire resistant safe, with dual custody. The following documents must be safeguarded:

a) Fixed deposit letter or investment certificate;

b) Receipt for capital invested;

c) Copy of electronic transfer or cheque requisition;

d) Schedule of comparative investment figures;

e) Commission certificate indicating no commission was paid on the investment; and

f) Interest rate quoted.

13.6 All investment must be denominated in South African Rand (ZAR)

13.7 The Chief Financial Officer or his/her assignee is responsible for ensuring that the invested funds have been invested with registered financial institutions approved by the Republic of

South Africa: National Minister of Finance, Public Investors Commission or with a bank rating of AA and endeavour to minimise risk exposure.

14. REPORTING AND MONITORING PROCEDURES

14.1 The Accounting Officer must within 10 days of the end if each month submit to the Mayor or Finance, Budget Control & Monitoring Committee a report describing in detail the investment and cash flow position of the Municipality as at the end of the month.

14.2 The report must contain a statement, prepared in compliance with generally recognised accounting principles/generally accepted municipal accounting principles, that states the:

a) beginning market value for the period
b) additions and changes to the market value during the period
c) ending market value for the period
d) fully accrued interest/yield for the reporting period
e) the credit risk rating for the institutions whose securities are held by the Municipality as at beginning and end of the reporting period
f) investments disposed of due to adverse changes in credit ratings
g) diversification of investments
h) any investments locked into a time period with an institution that has a rating that is not acceptable according to Fitch, Naspers or CA-ratings.

15. PERMITTED INVESTMENTS

15.1 The Republic of South Africa: National Minister of Finance may identify by regulation in terms of Section 168 of the Municipal Finance Management Act instruments or investments other than those referred to below in which Municipality may invest:

a) Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
b) Securities issued by the National Government;
c) Investments with the Public Investment Commissioners as contemplated by the Public Investment Commissions Act, 1984 (Act No. 5 of 1984);
d) Listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
e) Deposits with the corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act 46 of 1984);
f) Banker's acceptance certificates or negotiable certificates of deposits of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990);
g) Municipal Bonds issued by a Municipality
h) Guaranteed endowment policies with the intention of establishing a sinking fund; and

i) Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)

16. EXISTING INVESTMENTS

Current investments that were not permitted investments at the time of purchase do not have to be liquidated.

17. INVESTMENT DIVERSIFICATION

The Chief Financial Officer must ensure that available money is not invested with one institution. Investment will be restricted to institutions with a minimum credit rating of [AA]. The maximum term for any investment, may be 2 years, other than ceded investments.

18. PERFORMANCE EVALUATION

18.1 The performance of the investment portfolio must be evaluated quarterly. The time weighted yield attributable to the investment portfolio must be calculated each quarter and compared with the prevailing returns available on securities issued by the National Government.

18.2 A report discussing the performance of the investment portfolio must be submitted to the Chief Financial Officer within 10 days of the end of each quarter.

19. USE OF INDEPENDENT INVESTMENT MANAGERS

Should the need arise to use an investment manager at any time; one will be appointed using Supply Chain Management principles and practices.

20. UNALLOCATED RECEIPTS

All unclaimed and unidentified deposits older than three (3) years shall be publicised in a local newspaper on an annual basis and if unclaimed within the specified time frame, such monies will be transferred to sundry income.

21. PAYMENT OF CREDITORS

21.1 Due to the high bank charges with regard to cheque payments, it is essential to limit the payment of creditors to one payment per creditor per month. Should the facility be available, payments should be done by electronic transfer (subject to strict controls).

21.2 When considering the time to pay a creditor, proper consideration must be given to the conditions of credit terms of payment offered.

a) In cases where a cash discount is given for early settlement, the discount, if the relevant time scale is taken into account, must in most cases be more than any investment benefit that could be received from temporarily investing the funds.

b) If discounts are offered for early settlement they must be properly considered and utilised.

21.3 Besides this, the normal conditions of credit terms of payment offered by suppliers, must also be considered and utilized to the full by paying on the due date and not earlier, provided that no worthwhile discount is available or offered.

22. BANK AND CASH IN TERMS OF THE LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT Act NO.56 of 2003, Chapter 3, Part 1.

22.1 All names of bank accounts must be changed to the name of the newly created municipality,

22.2 New bank accounts must be opened if required,

22.3 All cheques received from the disestablished municipalities must be banked,

22.4 All bank accounts currently held and transferred to the municipality must be accounted for in the new accounting system,

22.5 The official responsible must ensure that the name change on the accounts has been effected,

22.6 All bank and cash must be made in terms of the Cash Management Policy,

22.7 Every municipality must open and maintain at least one bank account in the name of the municipality and

22.8 All money received by a municipality must be paid into its bank account in the name of the municipality as per the abovementioned legislative framework.

23. MANAGEMENT OF STOCK

Cash management must be improved by seeing that adequate stock control is exerted over all goods kept in stock.

24. SHORT- AND LONG-TERM DEBT

A municipality may only incur debt in terms of the Municipal Finance Management Act No. 56 of 2003.The municipality may incur two types of debt, namely short-term and long-term debt.

24.1. SHORT-TERM DEBT

24.1.1 A municipality may incur short-term debt only when necessary to bridge:

a) Shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year or

b) Capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long- term debt commitments.

24.1.2 A municipality:

a) Must pay off short-term debt within a financial year and

b) May not renew or refinance its short-term debt.

24.2. **LONG-TERM DEBT**

A municipality may incur long-term debt for purposes of financing its long-term strategic objectives, as outlined in the Constitution of the Republic of South Africa, Act No. 108 of 1996, and Chapter 7 on Local Government.

a) To provide democratic and accountable government for local communities,

b) To ensure the provision of services to communities in a sustainable manner,

c) To promote social and economic development,

d) To promote a safe and healthy environment and

e) To encourage the involvement of communities and community organizations in the matters of local government.

25. COMPLIANCE AND ENFORCEMENT

a) Violation of or non-compliance with this Policy may give a just cause of disciplinary steps to be taken.

b) It will be the responsibility of Accounting Officer to enforce compliance with this Policy.

26. EFFECTIVE DATE

This Policy shall come to effect upon approval by Council of Ugu District Municipality.

27. POLICY ADOPTION

This Policy has been considered and approved by the **COUNCIL OF UGU DISTRICT MUNICIPLAITY** as follows:

Resolution No:…………………………

Approval Date:......................................

UGU DISTRICT MUNICIPALITY

"The Municipality"

BUDGET POLICY

Contents

1. DEFINITIONS

In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Act, has the same meaning as in that Act.

"Accounting Officer" means the Municipal Manager of Ugu Municipality;

"Allocation" means –

i) a municipality's share of the local government's equitable share referred to in Section 214(l) (a) of the Constitution;

ii) an allocation of money to a municipality in terms of Section 214(1) (c) of the Constitution;

iii) an allocation of money to a municipality in terms of a provincial budget; or

iv) any other allocation of money to a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction.

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

"Approved budget" means 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.

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

a) the tariffs policy, which the Municipality must adopt in terms of Section 74 of the Municipal Systems Act;

b) the rates policy which the Municipality must adopt in terms of Section 3 of the Municipal Property Rates Act;

c) the credit control and debt collection policy, which the Municipality must adopt in terms of Section 96 of the Municipal Systems Act;

"Budget year" means the financial year 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 the Chief Financial Officer of Ugu Municipality;

"Council" means the Council of Ugu Municipality;

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

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

"Financial Statements" means statements consisting of at least -

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

"Financial year" means a 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 20 of 1998); or

d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure";

"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;

"long-term debt" means debt repayable over a period exceeding one year;

"Mayor" means the Mayor of Ugu Municipality;

"Municipality" refers to Ugu District Municipality

"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" means -

a) 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;

"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 vote; 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(l)(c) of the MFMA;

"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;
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;

"Virement" means transfer of funds between functions / votes

"Vote" means

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

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

2. PRINCIPLES

2.1 Section 215 (1) of the Constitution of the Republic of South Africa states that National, provincial and municipal budgets and budgetary processes must promote transparency, accountability and the effective financial management of the economy, debt and the public sector. It also states in S215 (3), that Budgets in each sphere of government must contain;

a. Estimates of revenue and expenditure, differentiating between capital and current expenditure;
b. Proposals for financing any anticipated deficit for the period to which they apply; and
c. An indication of intentions regarding borrowing and other forms of public liability that will increase public debt during the ensuing year.

2.2 Section 26(h) of the Municipal Systems Act (Act 32 of 2000) requires a municipality's Integrated Development Plan to reflect a financial plan, which must include a budget projection for at least the next three years (Medium Term Expenditure Framework);

2.3 Section 21 of the Municipal Finance Management Act (Act 56 of 2003) prescribes the function of the Mayor who must coordinate the processes for preparing the annual budget and for the reviewing of the municipality's Integrated Development Plan and budget related policies and to ensure that any revisions are mutually consistent and credible;

2.4 Section 16 of the Municipal Finance Management Act, requires the municipal council to approve an annual budget for the municipality before the start of the financial year;

2.5 The Minister with the concurrence of the Minister for Provincial and Local Government, has in terms of S168 of the Municipal Finance Management Act issued the Municipal Budget and Reporting Regulations which aim to secure sound and sustainable management of the budgeting and the reporting practices of the municipalities by establishing uniform norms and standards and other requirements for ensuring transparency, accountability and appropriate lines of responsibility in the budgeting and reporting processes; Now therefore, the Council of Ugu District Municipality adopts the Budget Policy as set out in this document.

3. OBJECTIVES OF THE POLICY

To set a broad framework within which Budget related decisions of the Municipality will be taken and implemented to ensure efficient and transparent financial planning that will promote sound and sustainable financial management, essential for the achievement of the Municipality's developmental priorities as contained in its Integrated Development Plan.

4. SCOPE AND INTENDED AUDIENCE

4.1 This Policy will serve as a guideline for the effective management of the Municipal budgetary processes, in order to attain the strategic objectives of the Municipality within the ambits of the applicable legislation, and shall apply to all departments within the Municipality.

4.2 Council has considered the guidelines distributed by National Treasury to local government which detail the processes and formats to be followed when preparing the budget policy.

4.3 The Municipality shall comply with the provisions of this Policy in the compilation of each of its budgets.

5. REGULATORY FRAMEWORK

In the process of preparing the Municipal budget, The Mayor, political office bearers (Councillors), Accounting Officer, Chief Financial Officer and other officials shall comply with all relevant legal requirements, including:-

a) The provisions of Chapter 4 of the Municipal Finance Management Act, 2003, ('the MFMA"), as well as Sections 42, 43, 53, 54, 55, 68, 69, 70, 71, 72, 75, 80, 81, and 83 thereof; and

b) The Municipal Budget and Reporting Regulations published in terms of Section 168 of the MFMA.

c) All relevant budget related Circulars and notices issued by the National Treasury.

6. ROLES AND RESPONSIBILITIES

6.1 Role of Council

a) Must provide political leadership and direction

b) Play an oversight role by approving budget related policies, and ensuring that the priorities are reflected in the budget. (Council may not delegate approval of budgets and policies)

c) Approve the Integrated Development Plan, the Annual Budgets and the Service Delivery Budget Implementation Plan.

d) Monitor the outcomes of the implementation of the policies and budgets.

6.2 **Role of the Mayor**

a) Provide general political guidance over the budget process and the priorities that must guide the preparation of the budget. (S53, MFMA)

b) Prepare and table a schedule of key deadlines for the preparation, tabling and approval of the budget, annual review of the IDP and the consultative process. (S21, MFMA)

c) Take all reasonable steps to ensure that the Municipality approves its annual budget before the start of the financial year and report to the Municipal Council and the MEC for finance in the province any delays in the tabling of the annual budget. (S53,MFMA)

d) Must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in S53, MFMA

6.3 **Role of the Accounting Officer**

a) Assist the Mayor in performing budgetary functions assigned to him/her in terms of Chapter 4 & 7 of the MFMA and to provide administrative support, resources and information necessary for the performance of those functions. (S68, MFMA)

b) Is responsible for the implementation of the approved budget and must take all reasonable steps to ensure that the spending of funds is in accordance with the budget and is reduced as necessary when the revenue is anticipated to be less than the projected in the budget.

c) Ensure that revenue and expenditure are properly monitored.

d) Must prepare an adjustments budget and submit it to the Mayor for consideration and tabling in the Municipal Council when necessary.

e) Report to the Municipal Council any shortfalls in budget revenue, overspending and necessary steps taken to prevent shortfalls and overspending.

f) Submit to the Mayor actual revenue, borrowings, expenditure and where necessary report variances on projected revenue and the budget.

6.4 Role of the Chief Financial Officer (CFO)

a) Without derogating in any way from the legal responsibilities of the Accounting Officer 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, cash management and investments policy), and shall be accountable to the Accounting Officer in regard to the performance of these functions.

b) Must advise the Accounting Officer on the exercise of powers and duties assigned to him in terms of the MFMA.

c) Must assist the Accounting Officer in the preparation and implementation of the Municipality's budget.

d) The Chief Financial Officer shall draft the budget timetable for the ensuing financial year for the Council'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 Management Committee, Finance Portfolio, Executive Committee and Council.

e) Except where the Chief Financial Officer, with the consent of the Mayor and Accounting Officer, 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:

   i) depreciation charges;
   ii) repairs and maintenance expenses;
   iii) interest payable on external borrowings; and
   iv) other operating expenses.

f) 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

g) Must perform all budgeting and other duties as delegated by the Accounting Officer in terms of S79, MFMA.

h) 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 debt impairment, accrued leave entitlements and obsolescence of stocks

i) The Chief Financial Officer shall further, with the approval of the Mayor and the Accounting Officer, determine the recommended contribution to the asset financing reserve and any special contributions to the self-insurance reserve.

j) The Chief Financial Officer shall also, again with the approval of the Mayor and the Accounting Officer, and having regard to the Municipality's current financial performance, determines the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted.

k) 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 Portfolio and Executive Committee, and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act.

l) 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 budget.

m) 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.

n) 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.

o) 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.

p) The Chief Financial Officer shall ensure that the cost of indigent relief is separately reflected in the appropriate votes.

q) 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.

6.5 **Role of Senior Managers & Other Officials**

a) Each Senior Manager and each Municipal official exercising financial management responsibilities must take all reasonable steps within his/her area of responsibility to ensure that the financial resources of the Municipality are utilised effectively, efficiently, economically and transparently.
b) Must prevent unauthorised, irregular and fruitless or wasteful expenditure and other losses within his/her Department.
c) Must ensure that all revenue due to the Municipality is collected.
d) Must ensure that all information required by the Accounting Officer for compliance with the provisions of the Acts is timeously submitted.

6.6 Role of the Budgeting Steering Committee

6.6.1 The Municipal Budget and Reporting regulations (Government Gazette 32141) chapter 2 requires the Mayor to establish a Budget steering comprising of the following members:-

a) The Mayor – Chairperson
b) The Speaker
c) The Whips of Political Parties
d) The Accounting Officer (Municipal Manager)
e) The Chief Financial Officer
f) The IDP Manager
g) The Manager Budget Office and,
h) Members of Senior Management (Top Management)

6.6.2 The role of the Committee shall be:-

a) To assist the Mayor in carrying out his/her statutory roles and responsibilities in accordance with S52 and S53 of the MFMA.
b) To provide technical assistance to the Municipal political office bearers during policy formulation and to assist priority determination.
c) To interrogate and make recommendations on the adoption of the Annual Budget, the Service Delivery and Budget Implementation Plan (SDBIP), S71 monthly budget statements and S72 Midyear budget and performance report and the Adjustments Budget.
d) To evaluate the progress report of the Accounting Officer with regard to the financial year end closure and compilation of the Municipal audit file.
e) To evaluate progress report on the statutory audit by the office of the Auditor General.
f) To exercise oversight in the compilation of the Annual Report.
g) To evaluate action plans from the Accounting Officer on corrective measures to be taken on issues raised by the Auditor General.
h) To evaluate and recommend payment of Annual Performance Bonuses to the Accounting Officer and Senior Management after the annual report has been adopted by Council on 31 January each year.

6.6.3 Council may adopt its existing Finance Portfolio Committee as its Budget and Steering Committee.

6.7 **Role of the Budget and Treasury Office**

a) To assist the Accounting Officer in tabulating key time frames for the Budget Process.

b) To provide guidance to the Accounting Officer and Senior Managers during the budget preparation process in accordance with National Treasury MFMA Reforms.

c) To consolidate departmental Capital and Operating budgets.

d) To consolidate departmental S71 monthly budget statements, quarterly returns and the Midyear monitoring report and submit to the Finance Portfolio Committee.

e) To report any unauthorised, irregular, fruitless and wasteful expenditure or any deviations from the approved budget to the Finance Portfolio Committee.

f) To assist the Accounting Officer in implementing recommendations of the Finance Portfolio Committee.

g) To manage the administrative operations of the Budget and Treasury Office to ensure full compliance with the MFMA and any issued guidelines or Circulars from National Treasury.

6.8 **Delegation of roles and responsibilities**

6.8.1 All delegations by the Mayor to the Accounting Officer, Mayor to the members of the Finance portfolio Committee, the Accounting Officer to the Chief Financial Officer and other Senior Managers, of their roles, duties and responsibilities as per the MFMA:-

a) Must be in writing,

b) Are subject to the limitations as may be imposed by the Act,

c) Does not absolve the Mayor, the Accounting Officer or the Senior Officials of the responsibilities concerning the exercise of the delegated power or the performance of the fiduciary duties, and

d) Should not be indefinite and must be reviewed annually.

7 **ANNUAL SCHEDULE OF KEY DEADLINES**

7.1 The deadline dates for all budget preparation processes shall be as per the approved Process Plan as tabled by the Mayor to Council in August.

7.2 Such Process Plan shall indicate the target dates for the draft revision of the Integrated Development Plan and the preparation of the annual budget for the ensuing financial year, which target dates shall follow the prescriptions of the MFMA, for the submission of all the budget-related documentation to the Mayor, Finance Committee, Executive Committee and Council.

7.3 Such time schedule shall provide for the deadlines set out in Appendix A, unless the Mayor, after consultation with the Chief Financial Officer, determines otherwise and provided that the requirements of the MFMA shall at all times be adhered to.

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

8 BUDGET PRINCIPLES

The sequence in which the Annual Budget shall be prepared shall be, first, the capital component and second, the operating component, except where the Chief Financial Officer with the consent of the Mayor decides otherwise. The Municipality's annual budget should:-

a) Move towards the achievement of goals and objectives of the Municipality within the constraints of the available resources.
b) Consider the Priorities as identified in the State of the Nation Address, State of the Province Address and the State of the District Address.
c) Reflect the priorities contained in the Municipality's Integrated Development Plan.
d) Be credible and fully funded from realistically anticipated revenues.
e) Consider any resolutions taken by Council or the Executive Committee in the previous Budget Year which have financial implications on the current Medium Term Revenue Expenditure Framework.
f) The basis of measurement and accounting policies underpinning the Municipality's annual financial statements must be the same as those used in the preparation of the Municipality's annual budget and supporting documentation.
g) 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 vote in the approved budget.

9 FUNDING OF EXPENDITURE

An Annual budget must be funded only from:

a) Realistically anticipated revenues to be collected.
b) Cash-backed accumulated surpluses from previous years not committed for other purposes;

c) Borrowed funds, but only for revenue-generating capital projects; and

d) Grants and subsidies as per DORA.

10 THE CAPITAL BUDGET

10.1 The Budget shall be prepared in the prescribed budget format of National Treasury.

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

10.3 The annual capital budget shall only be approved by Council if it is properly balanced (i.e. if the sources of finance have been secured to fund the budget and are equal to the proposed capital expenditure).

10.4 Before approving the capital budget, the Council shall consider the impact on the present and future operating budgets in relation to Finance Charges on external loans, Depreciation on fixed assets, Maintenance costs of fixed assets, and any other ordinary operational expenses associated with any item in that capital budget.

10.5 The Council shall also consider any impact of operating expenses – net of any revenues to be generated from the project – i.e. on future service tariffs.

10.6 Expenditure of a project shall be included in the Capital Budget if it meets the asset definition in terms of Council's approved Asset Management Policy

11 OPERATING REVENUE

11.1 The Operating revenue must include:

a) Estimates for all municipal revenue sources and;

b) All gazetted grants and subsidies, donations and subsidies in kind or emergency relief funding.

11.2 The allocation of interest on investments shall be budgeted for in terms of the cash, banking and investment policy.

11.3 In preparing the revenue budget, the Municipality shall strive to maintain the aggregate revenues from service charges at not less than 90% of the aggregate revenues net of operating grants.

11.4 The proposed increases in tariffs should be affordable, i.e. in line with CPIX, and should take into account the need to address infrastructure backlogs.

11.5 Tariff increases must respond to the population growth rate and the Division of Revenue Act.

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 as well as the routine maintenance plans. A minimum of 8% of the carrying amount of the fixed assets shall be provided for the expenditure on Repairs and Maintenance in the annual budget of the Municipality in accordance with the National Treasury norms.

12.5 FINANCE CHARGES, DEPRECIATION AND IMPAIRMENT

12.5.1 The 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 outstanding loan balances belonging to such department or vote to the aggregate outstanding loan balances. However, should Council decide to raise loans only for financing of fixed assets in a specified service or vote, finance charges shall be charged to or apportioned only between the departments or votes relating to such service.

12.5.2 The depreciation expenses shall be apportioned to each department based on the cost of assets allocated to that department. The depreciation method used shall be in terms of the Fixed Assets Management and Accounting Policies.

13 CONSULTATION ON TABLED DRAFT BUDGETS

The Municipality shall, after the annual draft budget is tabled in Council, consider the views of the local community, the National and Provincial Treasuries, organs of state and local municipalities, as required by Section 23 of the MFMA, and shall comply with all other requirements of that section. For the purpose of consultation, the draft budget will be made available to the community, through the community libraries, the municipal offices and the municipal website soon after tabling in Council.

14 APPROVAL OF THE ANNUAL BUDGET

The Council shall approve the budget before the start of the financial year, in accordance the provisions of Section 24 of the MFMA, failing which, the Municipality shall be subject to the provisions of Section 25 of the MFMA.

15 PUBLICATION OF THE BUDGETS

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

a) The budget is made public in accordance with the provisions of Section 17 (3) of the Local Government Municipal Systems Act.

b) The budget is submitted to the National Treasury and Provincial Treasury in printed and electronic formats;

c) The budget is submitted to any prescribed organs of state and to other municipalities affected by it.

16 MONTHLY BUDGET REPORTS

The Chief Financial Officer shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections, and the heads of departments shall 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.

17 RELATED POLICIES

This Policy must be read in conjunction with the following budget-related policies of the Municipality:-

17.1.1 Indigent Support Policy

17.1.2 Asset Management Policy

17.1.3 Water Services Policy (incorporating the Tariff Policy)

17.1.4 Cash, Banking and Investments Policy

17.1.5 Supply Chain Management Policy

17.1.6 Credit Control and Debt Collection Policy

17.1.7 Funding and Reserves Policy

17.1.8 Virement Policy

17.1.9 Basic Services Policy

18 REVIEW OF THE POLICY

This Policy will be reviewed annually by the Budget Steering Committee prior to the commencement of the budget process to ensure compliance with any changes in legislation or any 'best practice' guidelines and MFMA Circulars as may be issued by National Treasury from time to time.

19 COMPLIANCE AND ENFORCEMENT

a. Violation of or non-compliance with this Policy may give a just cause of disciplinary steps to be taken.

b. It will be the responsibility of Accounting Officer to enforce compliance with this Policy.

20 EFFECTIVE DATE

This Policy shall come to effect upon approval by Council.

21 POLICY ADOPTION

This Policy has been considered and approved by the **COUNCIL OF UGU DISTRICT MUNICIPALITY** as follows:

Resolution No:..............................

Approval Date:.....................................

ANNEXURE: LEGAL REQUIREMENTS

MUNICIPAL FINANCE MANAGEMENT ACT

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 each budget vote, taking into account the municipality's IDP;

- the projected cash flows for the financial year by revenue sources and expenditure votes;

- any proposed amendments to the IDP;

- any proposed amendments to the budget-related policies;

- the cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other councillors, the municipal manager, the chief financial officer, and other senior managers;

- particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as NGOs, welfare institutions and so on;

- particulars of the municipality's investments; and

- various information in regard to municipal entities under the shared or sole control of the municipality.

Section 18 Funding of expenditures

The budget may be financed only from:

- realistically expected revenues, based on current and previous collection levels;
- cash-backed funds available from previous surpluses where such funds are not required for other purposes; and

- borrowed funds in respect of the capital budget only.

Section 19 Capital projects

A municipality may spend money on a capital project only if the money for the project (excluding the cost of any required feasibility studies) has been appropriated in the capital budget.

11.6 The water and sanitation charges shall be calculated and levied as per the reviewed Water and Sanitation Tariffs Policy for that MTREF.

11.7 All tariffs shall be published in a local newspaper, and placed on the Municipal website and at the entrance of Ugu offices at least 30 days before the start of the financial year.

11.8 All tariffs must be gazetted in the Government Gazette before the 1st July each year.

12 OPERATING EXPENDITURE

12.1 The Municipality shall budget in each annual and adjustments budget for the contribution to:

a) provision for accrued leave entitlements.

b) entitlement of officials as at 30 June of each financial year;

c) provision for impairment of debtors in accordance with its Rates and Tariffs Policies;

d) provision for the obsolescence and deterioration of stock in accordance with its Supply Chain Management Policy;

e) depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which the projects relate;

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

a) Depreciation and impairment charges;

b) Repairs and maintenance expenses;

c) Interest payable on external loans, and

d) Any other operating expenses associated with fixed assets.

e) The operating budget must be in the prescribed National Treasury Format.

12.3 SALARIES AND ALLOWANCES

The budget for salaries and allowances shall be separately prepared and shall not exceed the parameter (percentage) of the aggregate operating budget component of the annual or adjustments budget, the parameters as may be contained in the budget circular issued by National Treasury from time to time. If the salary budget, exceed the parameter (percentage) of the aggregate operating budget as issued by National Treasury Council will be advised and provided with reasons and remedial action. The remuneration of Councillors and other political office bearers shall be excluded from this limit.

12.4 PROVISION FOR MAINTENANCE

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 Accounting Officer 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 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 been approved, and must also within the same period submit drafts of the annual performance agreements to the Mayor.

Section 70 Impending shortfalls, overspending and overdrafts

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

Section 71 Monthly budget statements

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

This report must reflect the following:

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

- projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.

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

Section 54 Budgetary control and early identification of financial problems

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

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

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

- promptly respond to and initiate the remedial or corrective steps proposed by the Municipal Manager, and
- alert the MEC for Local Government and the Council of the municipality to the problems concerned.

The Mayor may revise the details of the service delivery and budget implementation plan, but any revisions to the service delivery targets and quarterly performance indicators must be approved by the Council, and be supported by an adjustments budget. Any changes made to the projections of revenues and expenses as set out in the plan must promptly be made public.

Section 55 Report to provincial executive if conditions for provincial intervention exist

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

Section 72 Mid-year budget and performance assessment

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

The Municipal Manager must then submit a report on such assessment to the Mayor, the National Treasury and the Provincial Treasury.

The Municipal Manager may in such report make recommendations for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

In terms of Section 54(1)(f) the Mayor must promptly submit this assessment report to the Council of the municipality.

Section 73 Reports on failure to adopt or implement budget-related and other policies

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

Section 75 Information to be placed on websites of municipalities

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

- the annual and adjustments budgets and all budget-related documents;
- all budget-related policies;
- the annual report;
- all performance agreements;
- all service delivery agreements;

- all long-term borrowing contracts;
- all quarterly reports submitted to the Council on the implementation of the budget and the financial state of affairs of the municipality.

Section 80 Establishment (of municipal budget and treasury office)

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

Section 81 Role of chief financial officer

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

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

Section 83 Competency levels of professional financial officials

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

SUMMARISED TIMETABLE

NOTE: DATES IN BRACKETS ARE PUTATIVE

FINAL DATE	ACTION BY MUNICIPALITY	ACTION BY MUNICIPAL ENTITY
31 August	Table in council timetable for preparation of coming year's annual budget	-
20 January	-	Assess current year's budget performance and submit report to board of directors and municipality
25 January	Assess current year's budget performance	-
31 January	Table assessment report in council	-
31 January or earlier	-	Submit proposed budget for coming year to municipality
(31 January)	Consider municipal entity's proposed budget for coming year and make recommendations	-
(31 January or earlier)	Table municipal entity's adjustments budget for coming year	Submit adjustments budget for current year to municipality and make budget public
(Between 31 January and 31 March)	Table municipality's adjustments budget for current year and changes to service delivery targets and KPIs	-
(Between 31 January and 31 March)	Make public (adjustments budget and) revisions to service delivery and budget implementation plan for current year	-
Mid-March	-	Submit revised budget for coming year to municipality
31 March	Table municipality's draft budget for coming year	-
31 March	Table municipal entity's revised budget for coming year	-
Immediately after 31 March	Make public draft budget for coming year and invite submissions from community, provincial treasury and others	-
FINAL DATE	**ACTION BY MUNICIPALITY**	**ACTION BY MUNICIPAL ENTITY**
Before 31 May	Respond to submissions and revise draft budget for coming year	-
31 May	Consider approval of budget for coming year and attendant resolutions	Approve revised budget for coming year and make budget public

30 June	Budget for coming year and attendant resolutions must be approved by 30 June. Approved budget of entity must be tabled.	-
Early June to early July: immediately after budget approved	Submit budget to national treasury and provincial treasury	-
Early June to early July: immediately after approval dates	Place on website annual budgets and all budget-related documents	-
Mid June to mid July: 14 days after budget approved	Finalise draft service delivery and budget implementation plan and draft performance agreements	-
Late June to late July: 28 days after budget approved	Approve service delivery and budget implementation plan	-
Late June to late July: 28 days after budget approved	Conclude performance agreements	-
Mid July to mid August: 14 days after service delivery and budget implementation plan approved	Make public projections of revenues and expenses for each month of coming year, service delivery targets for each quarter, and performance agreements	-

DETAILED BUDGET TIMETABLE

Section of Municipal Finance Management Act No. 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations

21(1)(b)	31 August	Mayor must at least 10 months before start of budget year table in council time schedule outlining key deadlines for - preparation, tabling and approval of annual budget - annual review of IDP - annual review of budget-related policies - tabling and adoption of any amendments to IDP and budget-related policies - any consultative processes forming part of foregoing	Mayor	Time schedule must either fit in with already scheduled council meetings or must indicate when special council meetings must be scheduled.
Section 88	20 January	Accounting officer of municipal entity must assess entity's budgetary and financial performance for first six months of financial year, and submit assessment report to board of directors and parent municipality.		
72(1), (2) and (3)	25 January	Accounting officer of municipality must assess budgetary and financial performance of municipality for first six months of financial year, make recommendations on whether adjustments budget necessary, and recommend revised projections for revenues and expenses. This assessment must be submitted to the mayor, national treasury and the provincial treasury (presumably immediately).	Accounting officer	
54(1)(f)	31 January	Mayor must submit accounting officer's report to council.	Mayor	Special council meeting may have to be scheduled.
87	31 January or earlier if so requested by parent municipality	Board of directors of municipal entity must submit to parent municipality proposed budget for entity for ensuing financial year.	Board of directors of entity	It is not clear to what person or structure in the parent municipality this budget must be submitted. However, it makes good sense for the council of the municipality to consider this budget at the same meeting that it considers he municipality's own proposed adjustments budget.

87	(31 January to mid-March)	Parent municipality must consider proposed budget, and make any necessary recommendations.		It is not clear what person or structure in the parent municipality must perform this action, but the council seems the logical party. It would also make sense for the council to consider this budget by 31 January.
87	(Tabled in council by 31 January)	Board of directors of entity may, with approval of mayor of parent municipality, revise budget of entity for certain prescribed reasons. Adjustments budget once approved by board of directors of entity must be tabled by mayor at next meeting of council of parent municipality. Adjustments budget must be made public.	Board of directors and mayor of parent municipality	Evidently such an adjustments budget may be prepared at any stage. It would make good sense, however, for the parent municipality to insist that the entity's revised budget be prepared and submitted to the mayor at the same time that or before the entity's proposed budget for the new financial year is considered. Again the potential problem of different parent municipalities having different views will have to be resolved by (presumably) the mayors considered.
54(1) and (2)	(Between 31 January and 31 March)	If municipality faces "serious financial problems" mayor must "promptly" respond to and initiate remedial steps proposed by accounting officer, including steps to reduce expenses and tabling of adjustments budget. Mayor must also consider revisions to service delivery and budget implementation plan. (Note that only council may approve changes to service delivery targets and KPIs – these changes must therefore be tabled with the adjustments budget).	Mayor	Adjustments budgets may be prepared by the accounting officer, and tabled in council by the Mayor "when necessary". They must be so prepared and tabled (within prescribed limits as to timing and frequency) whenever material adjustments to expenses or revenues are required, and not only when "serious financial problems" are looming. In general, adjustments budgets should preferably be tabled by or as soon as possible after 31 January, and certainly not later than 31 March when the draft annual budget for the next year is first tabled.

54(3)	(Between 31 January and 31 March)	Mayor must ensure that revisions to service delivery and budget implementation plan are "promptly" made public. (Note that no concomitant revision of performance agreements is evidently envisaged).	Mayor	Presumably the accounting officer must make these revisions for the mayor's approval as part of the process of adjusting the annual budget. The deadline for these revisions must be by or as soon as possible after 31 January, but certainly not later than 31 March. See also 54(1) and (2).
87	100 days before start of financial year (approximately mid March)	Board of directors of entity must consider recommendations, and if necessary submit revised budget to parent municipality.	Board of directors of entity	
16(2)	31 March	Mayor must table (draft) annual budget of municipality at council meeting at least 90 days before start of budget year.	Mayor	Council meeting must be scheduled appropriately.
87	31 March	Mayor of parent municipality must table originally proposed or proposed revised budget (as case may be) of entity when (draft) annual budget of municipality first tabled.	Mayor	-
22(a) and 22(b)	Immediately after 31 March or earlier date if annual budget tabled before 31 March	Immediately after (draft) annual budget tabled in council, accounting officer must (1) make public budget and documents referred to in Section 17(3), and invite local community to submit representations in connexion with budget, and (2) submit annual budget in both printed and electronic formats to provincial treasury, and in either format to prescribed national and provincial organs of state and to other municipalities affected by the budget.	Accounting officer	
23(2)	Before 31 May	Council must give mayor opportunity (1) to respond to submissions received on (draft) annual budget and attendant documentation and (2) to revise budget, if necessary, and table amendments for consideration by council.	Mayor and council	-

24(1) and (2)	31 May	Council must consider approval of annual budget, together with resolutions imposing rates and levies, setting tariffs, approving measurable performance objectives for revenue from each source and for each vote, approving any changes to IDP, and approving any changes to budget-related policies.	Council	Although council has until 30 June to approve budget, best practice will be to approve budget not later than 31 May.
87(4)	31 May	Board of directors of municipal entity must approve budget for coming year, having taken into account recommendations of council of parent municipality, and must make budget public.	Board of directors of municipal entity	
24(3)	(Immediate after approval date)	Accounting officer must submit approved annual budget to national treasury and provincial treasury.	Accounting officer	No time limit is specified for this action, and neither is the format in which the budget is to be submitted specified. Common sense dictates that the submission should be at least in electronic format and that it should be made as soon as possible after the approval date.
25(1) and (2)	Within 7 days of date of council meeting which failed to approve annual budget	If council fails to approve annual budget at meeting scheduled in terms of Section 24, must reconsider budget within 7 days of date of such meeting. If necessary, process must be repeated until budget approved by 30 June.	Council	As province will intervene if budget not approved by 30 June, mayor, councillors and accounting officer must co-operate to ensure obstacles to approval timeously removed.
69(3)(a) and (b)	14 days after approval of annual budget (mid June to mid July)	Accounting officer must submit to mayor draft service delivery and budget implementation plan, and drafts of annual performance agreements for municipal manager and all senior managers.	Accounting officer	
53(1)(c)(ii)	Within 28 days after date annual budget approved (late June to late July)	Service delivery and budget implementation plan must be approved by mayor, including projections of revenues and expenses for each month, and service delivery targets and performance indicators for each quarter. (Note that though the mayor approves these targets and KPIs, only the council	Mayor	-

		may change them and then only following the approval of an adjustments budget. See Section 54(1)(c)).		
53(1)(c)(iii)(aa) & (bb)	Within 28 days after date annual budget approved (late June to late July)	Mayor must take all reasonable steps to ensure that annual performance agreements for municipal managers and all senior managers are linked to measurable performance objectives approved with the budget and to the service delivery and budget implementation plan, and are concluded in accordance with Section 57(2) of the Municipal Systems Act.	Mayor	No date is specified for the completion of this requirement, but the logical inference is that the date should not be much later than the date on which the service delivery and budget implementation plan must be approved. See Section 53(3)(b).
16(1)	30 June	Annual budget must be approved by council	Council	-
53(3)(a) and (b)	14 days after approval of service delivery and budget implementation plan (mid July to mid August, depending on date plan approved)	Projections of revenues and expenses for each month and service delivery targets for each quarter (as set out in approved service delivery and budget implementation plan), and performance agreements of municipal manager and senior manager must be made public, and copies of performance agreements must be submitted to council and MEC for local government.	Mayor	Although this is not specified as a requirement, logic dictates that copies of the service delivery and budget implementation plan should also be submitted to council and the MEC.

UGU DISTRICT MUNICIPALITY

("the Municipality")

BORROWING POLICY

Index

1. Definitions

"**Act**" means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

"**Disclosure statements**" means a statement issued or to be issued by:

- a municipality which intends to incur debt by issuing municipal debt instruments; and
- a person who intends to incur debt by issuing securities backed by municipal debt.

"**Financing agreement**" means any loan agreement, lease, instalment, purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time.

"**Lender**" means a person who provides debt finance to the Municipality.

"**Long term debt**" means debt repayable by the Municipality over a period exceeding one (1) year.

"**Municipal debt**" means:

(a) A monetary liability or obligation on a municipality by:
- a financing agreement, note, debenture, bond or overdraft; and
- the issuance of municipal debt instruments.

(b) A contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

"Municipality" means Ugu District Municipality

"**Security**" means any mechanism intended to secure the interest of a lender or investor and includes any of the mechanisms mentioned.

"**Short term debt**" means debt that is repayable over a period not exceeding one (1) year.

2. Purpose

The purpose of this Policy is to establish a borrowing framework for the Municipality and to set out the objectives, policies, statutory requirements and guidelines for the borrowing of funds, in order to:

2.1. Manage interest rate and credit risk exposure;

2.2. Maintain debt within specified limits and ensure adequate provision for the repayment of debt;

2.3. Ensure compliance with all Legislation and Council policy governing borrowing of funds.

3. Legislative Framework

All borrowings made by the Municipality shall be subject to the requirements of the Local Government: Municipal Finance Act, 2003 ("the MFMA") and the Municipal Regulations on Debt Disclosure ("the Disclosure Regulations") made there under and published under GN R 492 in Government Gazette 29966 of 15 June 2007.

4. Types of Debt

4.1. This Policy applies to the debt incurred by the Municipality through the issue of municipal debt instruments or in any other way.

4.2. Without derogating from the generality of the preceding subparagraph, this policy will apply:

4.2.1. To any debt, whether short -term or long term;

4.2.2. To any debt incurred pursuant to any financing agreement, which includes any of the following agreements under which the Municipality undertakes to repay a long-term debt over a period of time:

4.2.2.1. Loan agreements;

4.2.2.2. Leases;

4.2.2.3. Instalment purchase contracts;

4.2.2.4. Hire purchase arrangements;

4.2.3. To any debt created by the issuance of municipal debt instruments, including:

4.2.3.1. Any note;

4.2.3.2. Bond; or

4.2.3.3. Debenture; and

4.2.4. To any contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

5. Principles Guiding Borrowing Practices

The following principle shall guide the borrowing practices of the Municipality, namely:

5.1. Risk Management: The need to manage interest rate risk, credit risk exposure and to maintain debt within specified limits is the foremost objective of the borrowing policy. To attain this objective, diversification is required to ensure that the Chief Financial Officer prudently manages interest rate and credit risk exposure;

5.2. Cost of Borrowings : The borrowings should be structured to obtain the lowest possible interest rate, on the most advantageous terms and conditions, taking cognisance of borrowing risk constraints, infrastructure needs and the borrowing limits determined by Legislation;

5.3. Prudence: Borrowings shall be made with care, skill, prudence and diligence. To this end, officials of the Municipality are required to:

5.3.1. adhere to this policy, and other procedures and guidelines;

5.3.2. exercise due diligence;

5.3.3. prepare all reports in a timely fashion;

5.3.4. ensure strict compliance with all Legislation and Council policy.

6. Factors to be taken into account when borrowing

6.1. The Municipality shall take into account the following factors when deciding whether to incur debt:

6.1.1. the type and extent of benefits to be obtained from the borrowing;

6.1.2. the length of time the benefits will be received;

6.1.3. beneficiaries of the acquisition or development financed by the debt;

6.1.4. the impact of interest and redemption payments on both current and forecast income;

6.1.5. the current and future capacity of the Municipality's revenue base to pay for borrowings;

6.1.6. other current and projected sources of funds;

6.1.7. likely movements in interest rates for variable rate borrowings;

6.1.8. competing demands for funds;

6.1.9. timing of money market interest rate movements and the long term rates on the interest rate curve.

6.2. The Municipality will, in general, seek to minimise its dependence on borrowings in order to minimise future revenue committed to debt servicing and redemption charges.

7. Sources of Borrowings

7.1. Subject to any particular determination of the Council of the Municipality, the Municipality may enter into financing agreements with:

7.1.1. Registered South African Banks;

7.1.2. The Development Bank of Southern Africa;

7.1.3. Vendors of goods acquired under instalment purchase contracts or hire purchase arrangements;

7.1.4. Any other institution approved by the Council from time to time.

7.2. Unless the Council of the Municipality specifically determines otherwise, the Municipality shall not incur any debt by the issuance of any municipal debt instruments.

8. Short-term Debt

8.1. The Municipality may incur short –term debt only in accordance with and in the circumstances contemplated in Section 45 of the MFMA.

8.2. In particular, the provisions of section 45 (1) of the MFMA must be noted, these requiring that the Municipality may incur short –term debt only when necessary to bridge:

8.2.1. Shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year; or

8.2.2. Capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments.

8.3. Furthermore, as required by section 45 (4) of the MFMA, the Municipality must pay off short term debt within the financial year.

9. Overdraft Facility

9.1. Overdraft facilities are regulated by Section 45(3) of the MFMA.

10. Long Term Debt

10.1. The Municipality may incur long-term debt only in accordance with and in the circumstances contemplated in Section 46 of the MFMA.

10.2. Long-term debt may be incurred only for the purposes contemplated in Section 46(1) of the MFMA, namely:

10.2.1. Capital expenditure on property, plant or equipment to be used for the purpose of achieving the objects of local government, as set out in Section 152 of the Constitution; or

10.2.2. Re-financing existing long term debt, subject to section 46(5).

11. Council approval

Sections 45(2) and 46(2) require that short-term debt and long-term debt respectively may be incurred only if:

11.1. A resolution of the Council, signed by the Mayor, has approved the debt agreement;

11.2. The Accounting Officer has signed the agreement or other document which creates or acknowledges the debt.

12. Refinancing

12.1. Short-term debt may not be renewed or refinanced where that would have the effect of extending the short-term debt into a new financial year.

12.2. The Municipality may borrow in order to refinance long-term debt subject to the conditions contained in Section 46(5) of the MFMA.

13. Early repayment of loans

13.1. No loans will be repaid before due date unless there is a financial benefit to the Municipality.

13.2. The Municipality shall therefore assess the nature and extent of any benefits of early repayment before it makes any such early repayment.

13.3. Cognisance must be taken of any early repayment penalty clauses in the initial loan agreement, as part of the assessment.

14. Debt Repayment Period

14.1. As far as is practical, cognisance must be taken of the useful lives of the underlying assets to be financed by the debt for purposes of determining the duration of the debt.

14.2. Should it be established that it is cost effective to borrow the funds for a duration shorter than that of the life of the asset, the Municipality should endeavour to negotiate terms for the loan agreement on a shorter duration.

15. Provision for Redemption of Loans

15.1. The Municipality may set up sinking funds to facilitate loan repayments, especially when the repayment is to be met by a bullet payment on the maturity date of the loan.

15.2. Such sinking funds may be invested directly with the Lender's Bank.

15.3. The maturity date and accumulated value of such investment must coincide with the maturity date and amount of the intended loan that is to be repaid.

16. Non-Repayment or Non-Servicing of Loan

16.1. The Municipality must honour all its loan obligations.

16.2. Failure to effect prompt payment may jeopardise the Municipality's credit rating and adversely affect the ability of the Municipality to raise loans in the future loans at favourable interest rates.

16.3. In addition to ensuring the timely payment of the loans, the Municipality must adhere to the covenants stipulated in the loan agreements, including, in particular, the following where applicable:

16.3.1. furnishing audited annual financial statements;

16.3.2. maintaining long-term credit rating;

16.3.3. reporting of material changes in financial position of the Municipality.

17. Borrowing for Investment Prohibited

The Municipality shall not under any circumstances borrow funds for the purposes of investing them.

18. Security

18.1. Section 48 of the MFMA provides that the Municipality may provide security for any of its debt obligations in any of the forms referred to in Section 48(2).

18.2. Such security shall be given only pursuant to a resolution of the Council, which resolution must comply with the provisions of Section 48(3), (4) and (5) of the MFMA.

19. Disclosure

19.1. Section 49 of the MFMA requires that any person involved in the borrowing of money by a municipality must, when interfacing with a prospective lender or when preparing documentation for consideration by a prospective investor Any Official involved in the securing of loans by the Municipality must, when interacting disclose all relevant information in that persons possession or within that person's knowledge that may be material to the decision of that lender or investor, and take reasonable care to ensure the accuracy of any information disclosed.

19.2. In addition the Disclosure Regulations establish detailed requirements for the disclosure of information to prospective lenders and investors. Regulations 2, 3, 4, 5, 15, 16 and 17 are of particular importance to the Municipality, given the nature of the borrowings which it intends to make.

20. Guarantees

The Municipality may issues guarantees only in accordance with the provisions of Section 50 of the MFMA.

21. Internal Control

The Accounting Officer shall ensure that mechanisms, procedures and systems are put in place to ensure that:

21.1. Duties are separated in order to prevent fraud, collusion and other misconduct;
21.2. loan agreements and contracts are kept in proper safe custody;
21.3. there is a clear delegation of duties relating to the borrowing process;
21.4. senior officials check and verify all transactions;
21.5. transactions and repayments are properly documented;
21.6. a Code of ethics and standards is established and adhered to;
21.7. procedures relating to the borrowing process are established.

22. National Treasury Reporting and Monitoring Requirements

The Municipality shall promptly submit all returns and reports relating to borrowings as required by National Treasury, including reports on the Municipality's external interest paid each month, and the quarterly itemization of all of its external borrowings.

23. Other Reporting and Monitoring Requirements

23.1. The Municipality shall on a monthly basis perform the following control and reporting functions relevant to borrowings:
23.1.1. Reconciliation of bank accounts;
23.1.2. Payment requisition verification and authorization;
23.1.3. Completion of South African Reserve Bank returns;
23.1.4. Maintain schedule of payment dates and amounts;
23.1.5. Complete National Treasury Cash Flow returns;
23.1.6. Submission of particulars of borrowings as required by Section 71 of MFMA;
23.1.7. Perform analysis of ratios;
23.1.8. Scrutinise loan agreements to ensure compliance with loan covenants.

23.2. The Municipality shall on a quarterly basis perform the following control and reporting functions relevant to borrowings:

23.2.1. Submit National Treasury Borrowings return

23.2.2. Prepare debt schedules for reporting to the Executive Committee.

24. Related Policies

This Policy must be read in conjunction with the following other policies of the Municipality:

24.1. Budget Process Policy;

24.2. Cash Management and Investment Policy;

24.3. Virement Policy.

25. Municipal Manager to Implement Policy

The Municipal Manager, as Accounting Officer of the Municipality, shall be responsible for implementing this Policy, provided that he or she may delegate in writing any of his or her powers under this Policy to any other official of the Municipality.

26. Effective Date

The Policy shall come to effect upon approval by Council.

27. Policy Adoption

This revised Policy replaces the current Policy; it has been considered and approved by the **COUNCIL OF UGU DISTRICT MUNICIPALITY** as follows:

Resolution No:............................

Approval Date:..............................

Appendix A

DISCLOSURE REGULATIONS

UGU DISTRICT MUNICIPALITY

"The Municipality"

FUNDING AND RESERVES POLICY

CONTENTS

1. DEFINITIONS

In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Act, has the same meaning as in that Act.

"Accounting Officer" means the Municipal Manager of Ugu District Municipality

"Chief Financial Officer" means the Chief Financial Officer of Ugu District Municipality

"Council" means the Council of Ugu District Municipality

"MFMA" means the Municipal Financial Management Act, 2003 (Act No 56 of 2003)

"Municipality" means Ugu District Municipality

"GRAP" means Generally Recognised Accounting Practices standards.

2. OBJECTIVES OF THE POLICY

The objectives of this Policy are to:

a. Ensure that the Medium Term Revenue/Expenditure Framework (Annual Budget) of the Municipality is appropriately funded.

b. Ensure that cash resources and reserves are maintained at the required levels to avoid unfunded liabilities.

c. To achieve financial stability in order to provide sustainable levels of service delivery to the community.

3. SCOPE AND INTENDED AUDIENCE

3.1 The Funding and Reserves policy aims to ensure that the Municipality has sufficient funding in order to achieve its objectives through the implementation of its operating and capital budgets.

3.2 This Policy aims to set guidelines towards ensuring financial viability over both the short- and long-term which includes reserves requirements.

4. REGULATORY FRAMEWORK

The legislative framework governing funding of the Annual Budget is:

a. Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003); and,

b. Local Government: Municipal Budget and Reporting Regulation, Regulation 393, published under Government Gazette 32141, 17 April 2009.

5. FUNDING OF THE ANNUAL BUDGET

5.1 An annual budget may only be funded from:

a. Cash backed accumulated funds from previous years' surpluses and reserves not committed for any other purpose;

b. Realistically anticipated revenues to be collected;

c. Borrowed funds only for capital expenditure, and

d. Grants and subsidies.

5.2 Realistic anticipated revenue projections must take into account:

a. Projected revenue for the current year based on the previous year's billing information.

b. Actual revenue collected in previous financial years.

6. OPERATING BUDGET

6.1 The operating budget provides funding to departments for their medium term expenditure as planned. The Municipality categorises services rendered to the community according to its revenue generating capabilities in line with the tariffs policy

a) Trading services – services that generate surpluses that can be used for cross subsidisation to fund other services.

b) Economic services – services that break even with no surpluses.

c) Rates and general services – services that are funded by surpluses generated by trading services, and/or other revenues generated such as, interest received, grants and subsidies etc.

6.2 The operating budget is funded from the following main sources of revenue:

a) Surpluses generated from service charges.

b) Government grants and subsidies.

c) Other revenue, interest received etc.

d) Cash backed accumulated surpluses from previous years not committed for any other purposes.

6.3 The following guiding principles apply when compiling the operating budget:

a) The annual budget must be balanced and funded.

b) Growth parameters must be realistic taking into account the current economic conditions.

c) Tariff adjustments must be realistic, taking into consideration the general inflation, affordability, bulk increases and the demand according to the approved Integrated Development Plan (IDP).

d) Revenue from government grants and subsidies must be in line with allocations gazette in the Division of Revenue Act and provincial gazettes.

e) Revenue from public contributions, donations or any other grants may only be included in the budget if there are acceptable documentation that guarantees the funds such as:

(i) Signed service level agreement;
(ii) Contract or written confirmation; or
(iii) Any other legally binding document.

f) Projected revenue from service charges must be realistic based on current and past trends with expected growth considering the current economic conditions. The following factors must be considered for each service when applicable:

i. <u>Metered services namely water:</u>

aa) The consumption trends for the previous financial years;
bb) Envisaged water restrictions when applicable; and
cc) Actual revenue collected in previous financial years.

ii. <u>Sewerage services:</u>

aa) The actual number stands/consumer points receiving the service and the consumption trends per category; and
bb) Actual revenue collected in previous financial years.

g) Rebates, exemptions or reductions for service charges are budgeted either as revenue foregone or as expenditure most often (grant) as per directive in MFMA Budget Circular 51 depending on the conditions thereof.

h) Other projected income is charged in terms of the approved sundry\ tariffs and fines considering the past trends and expected growth for each category.

i) Provision for revenue that will not be collected is made against the expenditure item bad debt and based on actual collection levels for the previous financial year and the projected annual non-payment rate.

j) Interest received from actual long-term and or short-term investments are based on the amount reasonably expected to be earned on cash amounts available during the year according to the expected interest rate trends. The actual amount allocated for interest on investments is contributed to the Capital Replacement Reserve.

k) Transfers from the accumulated surplus to fund operating expenditure will only be allowed for specific once-off projects and with no recurring operating expenditure resulting there from.

l) Transfers from the accumulated surplus to offset the increased depreciation charges as a result of the implementation of GRAP 17 will be phased out over a number of years.

m) A detailed salary budget is compiled on an annual basis. All funded positions are budgeted for in total and new and/or funded vacant positions are budgeted for six months only of the total package considering the recruitment process. As a guiding principle the salary budget should not exceed the parameter (percentage) of the aggregate operating budget component of the annual or adjustments budget, the parameters as may be contained in the budget circular issued by National Treasury from time to time.

n) (Depreciation charges are fully budgeted for according to the asset register and to limit the impact of the implementation of GRAP 17 a transfer from the accumulated surplus is made) However the annual cash flow requirement for the repayment of borrowings must fully be taken into consideration with the setting of tariffs.

o) To ensure the health of municipal assets, sufficient provision must be made for the maintenance of existing and infrastructure assets based on affordable levels, resulting that maintenance budgets are normally lower than the recommended levels. Therefore the mere reduction of maintenance budgets to balance annual budgets must carefully be considered. As a guiding principle repair and maintenance should constitute between 5 and 8% of the carrying value of the property, plant and equipment and should annually be increased incrementally until the required targets are achieved.

p) Individual expenditure line items are to be revised each year when compiling the budget to ensure proper control over expenditure. Increases for these line items must be linked to the average inflation rate and macro-economic indicators unless a signed agreement or contract stipulates otherwise.

7. CAPITAL BUDGET

7.1 The capital budget provides funding for the Municipality's capital programme based on the needs and objectives as identified by the community through the Integrated Development Plan and provides for the eradication of infrastructural backlogs, renewal and upgrading of existing infrastructure, new developments and enlargement of bulk infrastructure.

7.2 Capital expenditure may only be incurred on a capital project if:

a. The funding for the project has been appropriated in the capital budget.

b. The total cost for the project has been approved by Council.

c. The future budgetary implications and projected cost covering all financial years until the project is operational has been considered.

d. The implications of the capital budget on municipal tax and tariff increases been considered.

e. The sources of funding are available and have not been committed for other purposes.

7.3 Provisions on the capital budget will be limited to availability of sources of funding and affordability. The main sources of funding for capital expenditure are:

(a) Accumulated cash backed internal reserves;

(b) Borrowings;

(c) Government grants and subsidies; and

(d) Public donations and contributions.

7.4 The following guiding principles apply when considering sources of funding for the capital budget:

(a) Government grants and subsidies:

i. Only gazette allocations or transfers as reflected in the Division of Revenue Act or allocations as per provincial gazettes may be used to fund projects;

ii. The conditions of the specific grant must be taken into consideration when allocated to a specific project; and

iii. Government grants and subsidies allocated to specific capital projects are provided for on the relevant department's operating budget to the extent the conditions will be met during the financial year.

(b) In the case of public contributions, donations and/or other grants, such capital projects may only be included in the annual budget if the funding is guaranteed by means of:

i. Signed service level agreement;
ii. Contract or written confirmation; and/or
iii. Any other legally binding document.

(c) Public donations, contributions and other grants are provided for on the relevant department's operating budget to the extent the conditions will be met during the financial year.

(d) The borrowing requirements, to be used as a basis to determine the affordability of external loans over the Medium Term Income and Expenditure Framework. The ratios to be considered to take up additional borrowings:

i. Long-term credit rating of BBB;
ii. Interest cost to total expenditure to not exceed 8%;
iii. Long-term debt to revenue (excluding grants) not to exceed 50%;
iv. Collection rate of above 95%;
v. Percentages of capital charges to operating expenditure less than 18%.

(e) Allocations to capital projects from cash backed internal reserves will be based on the available funding for each ring-fenced reserve according to the conditions of each reserve as follows:

i. Infrastructure projects to service new developments and the revenue is received through the sale of stands/land/site must be allocated to the capital reserve for services;
ii. Capital projects of a smaller nature such as office equipment, furniture, plant and equipment etc. must be allocated to the capital reserve from revenue which is funding from the revenue budget for that specific year. A general principle is that these types of capital expenditure should not exceed more than 1% of total operating expenditure;
iii. Capital projects to replace and/or upgrade existing assets may be allocated to the capital replacement reserve;
iv. Capital projects to upgrade bulk services will be allocated to the capital bulk contributions reserve for each service.

7.5 All capital projects have an effect on future operating budget therefore the following cost factors should be considered before approval:

a) Additional personnel cost to staff new facilities once operational;

b) Additional contracted services, that is, security, cleaning etc.

c) Additional general expenditure, that is, services cost, stationery, telephones, material etc.

d) Additional other capital requirements to the operate facility, that is, vehicles, plant and equipment, furniture and office equipment etc.

e) Additional costs to maintain the assets;

f) Additional interest and redemption in the case of borrowings;

g) Additional depreciation charges;

h) Additional revenue generation. The impact of expenditure items must be offset by additional revenue generated to determine the real impact on tariffs.

8. CASH FLOW MANAGEMENT

8.1 The availability of cash is the most important requirement for financial sustainability and must be closely monitored by the Chief Financial Officer. In doing so the Chief Financial Officer must ensure a minimum cash on hand to cover 90 days operational expenditure.

8.2 Surplus cash not immediately required for operational purposes must be invested in terms of the Municipality's Cash Banking and Investment Policy to maximise the return on cash.

9. MANAGEMENT OF DEBTORS

9.1 Debt is managed in terms of the Municipal credit control and debt collection policy.

9.2 The provision for bad debts is budgeted as an expense and is based on the projected annual non-payment rate for each service.

10. DONATIONS, GRANTS AND SUBSIDIES.

10.1 Revenue from donations or any other grants may only be included in the budget if there is acceptable documentation that guarantees the funds such as:

a) Signed service level agreement;

b) Contract or written confirmation; or

c) Any other legally binding document.

10.2 The conditions of the specific grant must be taken into consideration when allocated to a specific project. Government grants and subsidies allocated to specific capital projects are provided for on the relevant department's operating budget to the extent that the conditions will be met during the financial year.

11. THE CAPITAL REPLACEMENT RESERVE

11.1 All reserves must be *"ring fenced"* and "*cash backed*" as internal reserves within the accumulated surplus, except for provisions as allowed by GRAP.

11.2 Once the Municipality has reached its maximum gearing ability, no further borrowings can be taken up. The Municipality must invest in a capital replacement reserve. This reserve provides internal funding for the Municipality's capital replacement and renewal programme. Contributions to the capital replacement reserve through the operating budget will be:

a) Interest received on investments;

b) Proceeds from sale of assets.

12. THE CAPITAL CONTRIBUTIONS

These supplement capital expenditure for the necessary expansions and upgrading of bulk infrastructure. Revenue generated from capital contributions is allocated to this reserve for each applicable service. The unspent contributions must be cash backed to ensure availability of cash when the infrastructure upgrades are required.

13. PROVISIONS

A provision is recognised when the Municipality has a present obligation as a result of a past event and it is probable, more likely than not, that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
Provisions are revised annually and those estimates to be settled within the next twelve (12) months are treated as current liabilities.

The Municipality has the following provisions:

(a) Leave provision

Liabilities for annual leave are recognised as they accrue to employees. An annual provision is made from the operating budget to the leave provision. Due to the fact that not all leave balances are redeemed for cash, only 75% of the leave provision is cash backed.

(b) Long services awards

Municipal employees are awarded leave days according to years in service at year end. Due to the fact that not all long service leave balances are redeemed for cash, only 75% of the long service leave provision is cash backed.

(c) *Post employment medical care benefits*

The Municipality provides post-retirement medical care benefits by subsidising the medical aid contributions to retired employees and their legitimate spouses. The entitlement to post-retirement medical benefits is based on employees remaining in service up to retirement age and the completion of a minimum service period. The expected cost of these benefits is accrued over a period of employment.

14. OTHER ITEMS TO BE CASH BACKED

14.1 Unspent conditional grant funding

Revenue received from conditional grants is recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Amounts in relation to the unspent grant funding are therefore retained in cash and are not available to fund any other items on the operating or capital budget other than that for which it was intended for.

14.2 Consumer Deposits

Consumer deposits are partial security for a future payment. Deposits are considered a liability as the deposit is utilised once the agreement is terminated. The funds are owed to consumers and can therefore not be utilised to fund the operating or capital budget. Consumer deposits should be retained in cash and be ring-fenced.

15. POLICY REVIEW

This Policy will be reviewed annually to ensure that it complies with changes in applicable legislation and accounting standards.

16. COMPLIANCE AND ENFORCEMENT

a. Violation of or non-compliance with this Policy may give a just cause of disciplinary steps to be taken.

b. It will be the responsibility of Accounting Officer to enforce compliance with this Policy.

17. EFFECTIVE DATE

This Policy shall come to effect upon approval by Council of Ugu District Municipality.