MOGALE CITY LOCAL MUNICIPALITY

BUDGET MANAGEMENT POLICY

2025 -2026

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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 the Act, and –

- **ACCOUNTING** – the essential process of keeping track of funds, both revenue or revenues received, and the expenditure going out.

- **AUDIT** – the inspection of accounting records and testing of systems of internal control. The two main types of audits are external and internal.

- **BUDGET**– the local authority's financial plan of action for a multi financial cycle. The two types of budgets are operational and capital. Capital budget refers to expenditure on assets with a lifespan of more than one year or expenditure on existing assets that improves the life span of the asset or its productivity whilst Operating Budget deals with recurrent and short-term expenditure, like salaries, phone bills, fuel and stationery.

- **SERVICES DELIVERY AND BUDGET IMPLEMENTATION PLAN/ BUSINESS PLANS** – Narrative report containing information on the objectives of the organization or programmes, how objectives intend to be achieved through action plans, targets dates for implementation, resources required, people responsible for implementing plans and how success in implementing action plans will be measured.

- **CAPITAL ASSETS** – Assets that are expected to be of continued use over a number of years like electricity networks or buildings. The future economic benefit or potential service provision embodies in an asset is the potential to contribute, directly or indirectly, to the cash and the cash equivalent of the municipality as well as to the delivery of services.

- **DEFICIT** – A deficit (short or fall) occurs when more **funds are spent and exceed the revenue that was raised/levied**

- **EXPENDITURE** – Funds spent on operating and capital expenditure.

- **FINANCIAL MANAGEMENT** – A series of process including budgeting funds, safeguarding revenue, capital and assets, monitoring performance and financial reporting.

- **FINANCIAL STATEMENTS** – a summary of the annual financial records of the local authority that provides a picture of the functioning of the local authority in monetary terms.

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- **FINANCIAL YEAR** – the financial year of local authorities runs from 1 July to 30 June of the following year.

- **FRUITLESS AND WASTEFUL EXPENDITURE** – this is Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

- **GRANTS** – grants are amount of funds including subsidies given to local authority by the National, Provincial government and District Municipality to fund certain functions such as roads and storm water, sanitation, water and health care. Grants can also be received from members of the public or other institutions. In contrast to loans, however there are additional (where conditions are set against expenditure) and non-conditional grants.

- **REVENUE** – the funds raised by local authorities.

- **MTREF–** Medium Term Revenue and Expenditure Framework (the base year plus the two outer years)

- **INCREMENTAL BUDGETING** – a method of preparing the budgets in local authorities. The budget for the next financial year is based on the actual revenue and expenditure of the previous year adjusted for an expected price increase or inflationary increase.

- **INFLATION** – a persistent rise in the level of prices and wages throughout a country's economy thereby decreasing the value of the country's currency. If the inflation rate increases from one year to another, it means that consumers get less value for the same amount of funds compared to previous years.

- **INTEGRATED DEVELOPMENT PLAN** – this is a plan that every local authority is required to prepare in terms of legislation. The plan should sort out the economic and social development that is required in local authorities to develop and integrate communities. The plan should be based on community needs.

- **INTEREST** – in the financial world, whenever someone borrows funds, that person will have to repay more than they borrowed. This additional amount is called Interest and is the profit that the lender makes from lending funds to someone else.

- **INTERST RATE** – this is the amount of the interest rate that is charged on a loan (or received on a deposit) over a year, and it is expressed as a percentage.

- **INTERNAL CONTROLS** – these are laid down internal rules, which set out the procedures, which employees must comply with when doing their duties.

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- **LOAN** – a loan is sum of funds that is lent to a borrower on conditions that this is repaid, either in installment or all at once at a future date. The borrower usually has to pay the lender an agreed rate of interest.

- **OFFICIAL** – any of the following: **in terms of MFMA**
  - ✓ an employee of a municipality,
  - ✓ a person contracted by the municipality to work as a member of staff otherwise as an employee
  - ✓ a person seconded to a municipality to work as a member of staff

- **OVERSPENDING** – Causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriate in that year's budget for its operational or capital expenditure, as the case may be.
- In relation to a vote, it means causing expenditure under the vote to exceed the amount appropriated for that vote.

- **PROCESS CHARTING** – is a technique to help identity, define, and link all of the activities together so that everyone understands the process; the responsibilities of his or her organization; and the sequence of events

- **PROGAMME BUDGETING –** Used by National and Provincial Governments as well as Local authorities. Activities performed by departments are classified as programmes that describe what the department and local authorities are going to achieve.

- **RATES** – taxes raised based on property values (market value).

- **RATES ASSESMENT** – is the invoice setting out the rates payable by each ratepayer.

- **RATE BASE** - all the individual property owners and businesses that are legally required to pay to the local authority.

- **SERVICE CHARGES** – charges made by local authorities to consumers for the provision and consumption of services such as electricity, water, refuse and sewerage.

- **SURPLUS** – a surplus occurs when the amount of revenue exceeds the amount of expenditure.

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- **UNAUTHORISED EXPENDITURE** – any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes overspending as defined in the term overspending.

- **VALUATION ROLL** – the valuator rolls record the market value of the property within the municipal area. These property values are used to determine the rates for each ratepayer.

- **VIREMENT** – virement is a process whereby the unused budget of a specific line item of expenditure is used to finance a different line item of expenditure, which is unbudgeted.

- **VOTE** – a vote is one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different departments of functional area concerned. (MFMA).

- **ZERO BASED** – as opposed to incremental budgeting, zero-based budgeting means that each year's budget is drawn up independently from that of the previous year. This means that items are not included simply because they were in the previous budget. Each item has to be justified and motivated for and the purpose of each item is considered. All items in the capital budget are treated on a 'zero-basis'.

- **Useful life –** the period of time over which an asset is expected to be used or number of production units expected from the asset.

ABBREVIATIONS/ACRONYMS

BTO	Budget & Treasury Office
BP	Budget Process
CFO	Chief Financial Officer
CPIX	Consumer Price Index (excluding interest cost on mortgage bonds)
MCLM	Mogale City Local Municipality
DoRA	Division of Revenue Act
GAMAP	Generally Accepted Municipal Practice
GRAP	General Recognized Practice
GPG	Gauteng Provincial Government

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IDP	Integrated Development Plan
IGR	Intergovernmental Relations System
LED	Local Economic Development
MCI	Municipal Cost Index
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MM	Municipal Manager
MMC	Member Mayoral Committee
MPRA	Municipal Property Rates Act
MSA	Municipal System Act
MTREF	Medium-term Revenue and Expenditure Framework
NT	National Treasury
PMS	Performance Management System
PMU	Project Management Unit
PPE	Property, Plant and Equipment
REDs	Regional Electricity Distributor
SDBIP	Service Delivery and Budget Implementation Plan
VAT	Value Added Tax
mSCOA	municipal Standard Chart Of Accounts

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PREAMBLE

The objective of the MFMA is to secure sound and sustainable management of the financial affairs of the municipalities and other institutions in the local sphere of government; to establish treasury norms and standards for the local sphere of government; and to provide for matters connected therewith.

WHEREAS Section 215 of the Constitution of the Republic of the South Africa, 1996 requires the National, Provincial and Local sphere of government to draft budgets that promotes transparency, accountability and the effective financial management of the economy, debt and the public sector. The constitution furthermore states that the budget 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 intension regarding borrowing and other forms of public liability that will increase public debt during the ensuing year.

WHEREAS Section 16 of the Local Government: Municipal Finance Management Act, 2003 (Acts 56 0f 2003) requires that Municipal approves annual budget before the start of the financial year, adopt, maintain and implement a Budget Policy.

WHEREAS Section 56 of the Municipal Structure Act, 1998 (Act 117 of 1998) prescribes the function and powers of the **Executive** Mayor who must recommend to the municipality the Integrated Development Plan which carries the financial plan and budget projections to carry out service delivery. The Executive Mayor delegates this responsibility to the Accounting Officer to prepare the budget together with the Chief Financial Officer, Senior Managers and other Officials.

WHEREAS Section 26 of the Municipal Systems Act, 2000 (Act 32 of 2000) requires the Municipality to have the **Integrated Development Plan** with a financial plan, which must include a budget projection for at least the next three years;

And **WHEREAS** the Council has approved the five (5) year **IDP** programme which prescribes the management of **Municipality's financial planning** through determination of priorities**, which priorities should be funded by annual budget over the MTREF period.**

1. INTRODUCTION

The management of the financial affairs of a municipality, including the determination of priorities, the planning of the Medium-term Revenue and Expenditure Framework and the monitoring of the budget is driven by all legislation and the regulations found therein**.** The

Municipal System Act addresses the role of local government in the society and the planning processes such as the Integrated Development Plan that **precedes** the budgeting process.

To summarize: The strategic planning and budgeting processes should be based on the following guiding principles:

Principle 1 – Establish Broad Goals to Guide Government Decision Making:

A government should have broad goals that provide the overall direction for the government and serve as a basis for decision-making.

Mogale City Local Municipality has developed a five-year strategic plan to provide overall direction for service delivery backlogs and to comply with the Municipal Finance Management Act. The objectives in the five-year plan are:

- To provide sustainable services to the community;
- To promote sustainable environmental management ;
- To provide sustainable governance for local communities;
- To ensure sustainable governance practices within the Municipality;

Principle 2 – Develop Approaches to Achieve Goals

A government should have specific policies, plans, programs, and management strategies to define how it will achieve its long-term goals.

Mogale City Local Municipality has developed measurable performance objectives with Key Performance Indicators, Municipal Targets, and Key Drivers to define how it will achieve long-term objectives.

Principle 3 – Develop a Budget with Approaches to Achieve Goals

A financial plan and budget that moves towards achievement of goals, within the constraints of available resources, should be prepared and adopted.

The proposed budget should be affordable. The rates, tariffs and other charges increases should be within the CPIX range, take into account labor and other input costs of services provided by the municipality, the need to ensure financial sustainability, local economic conditions and the affordability of services and taking into consideration the municipality's Indigent Policy .

Principle 4- Evaluate Performance and Make Adjustments

Programs and financial performance should be continually evaluated, and adjustments made, to encourage progress towards achieving goals.

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Mogale City Local Municipality has established targets with key performance indicators reflected in the Municipality's scorecard to continually evaluate the budget against the long-term strategic objectives.

2. PURPOSE AND MAIN RECOMMENDATION

The rationale for this report is to obtain Council approval for the implementation of a consolidated Budget Policy in line with the Municipal Finance Management Act (MFMA), 2003, (Act 56 of 2003), for the financial year 2025/2026 in order:

2.1. To establish, maintain and approve a policy framework by which Executive Managers, Managers and Assistant Managers can compile, control and review departmental budgets to ensure effective financial management.

2.2. To assist **Executive Mayor, Mayoral Committee, Accounting Officer, Executive Managers ,Managers and other officials** to identify (detect) financial problems on time and to provide them with the remedial or corrective measures to rectify variance; and

2.3. To empower Councilors, Mayoral Committee members and Officials to ensure that funds are managed carefully and transparently as accountability resides with them.

The main recommendation is that the attached Budget **Management** Policy be approved for implementation on **1 July 2025.**

3. LEGAL ENVIRONMENT

3.1. Legislation and Policy Strategy

Mogale City Local Municipality is committed to comply with the applicable legislation that pertains to budgeting and financial management. The following legislation **and regulations** are relevant:

- THE CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA, ACT No. 108 of 1996
- THE MUNICIPAL FINANCE MANAGEMENT ACT No 56 of 2003
- THE MUNICIPAL SYSTEM ACT No 32 of 2000
- THE MUNICIPAL STRUCTURE ACT No.117 of 1998
- MUNICIPAL PROPERTY RATES ACT 6 OF 2004
- **MUNICIPAL BUDGET AND REPORTING REGULATIONS**
- **SUPPLY CHAIN REGULATIONS**
- AND OTHER APPLICABLE BY-LAWS, ORDINANCE OR LEGISLATION

3.2. National Treasury Practice Notes

Cognizance must be taken of the National Treasury Circulars that may have an impact on the budgeting environment. All National Treasury Circulars will be considered.

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4. STRATEGIC PLAN OBJECTIVE ADDRESSED

4.1. STRATEGIC GOAL NO 4

To ensure sustainable governance practices within the Municipality.

Key Performance Indicators are achieved when the following are present:

- Participation
- Consensus orientation
- Strategic vision
- Effectiveness and efficiency
- Responsiveness
- Equity Building
- Rule of law
- Transparency
- Accountability

The formulation of a comprehensive budget policy has become essential to enable the Municipality to attain the above objectives and to comply with the MFMA**.**

It is envisaged that this policy may be amended from time to time, depending on legislative changes and Municipal needs.

The intension of the MFMA is to ensure Council at a strategic level approves budget per departments and within a specified timeframe. Since the implementation of the MFMA, management has increased flexibility to reallocate resources. Therefore, a procedure and policy needs to be in place that this power in not misused.

4.2. DISCUSSION

The Budget Management Policy specifies applicable legislative requirements, as well as appropriate processes and procedures to be adhered to by all the role players (Executive Managers, Managers, Assistant Managers and **all officials**) in the management of their budgets.

4.3. INTERDEPARTMENTAL AND DEPARTMENT IMPACT

It will strengthen **all** departments' relationships across **the municipality** by improved planning and facilitate improved planning and corrective instant planning. The formulation and implementation of a Budget Management Policy will give credence to effective financial management.

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4.4. IMPLICATION: HUMAN RESOURCE, FINANCE, LEGAL, COMMUNICATION

From a Finance Department point of view, the policy will not require any additional resources, but it will, on the contrary contribute to the more effective and efficient utilization of the Municipal resources. The purpose of the policy will, however, only be achieved fruitfully if the Marketing and Communication Department assists in communicating it to all office bearers and officials.

5. OBJECTIVES OF THE MUNICIPAL FINANCE MANAGEMENT ACT (MFMA)

Chapter 4 of the Local Government: Municipal Finance Management Act, which deals with Municipal Budget, came into effect on 1 July 2004.

The objective of the MFMA is to secure sound and sustainable management of the fiscal and financial affairs of municipalities and municipalities entities by establishing norms and standards and other requirements for –

- ensuring transparency, accountability and appropriate lines of responsibility in the fiscal and financial affairs of municipalities and municipal entities;
- the management of their revenues, expenditures, assets and liabilities and the handling of their financial dealings;
- budgetary and financial planning processes and the co-ordination of those processes with the processes of organs of the state in other sphere of government;
- borrowing
- the handling of financial problems in municipalities;
- Supply Chain Management; and
- Other financial matters.

6. IMPLEMENTATION OF THE BUDGET MANAGEMENT POLICY

This policy applies to:

- Financial Planning **and Coordination**
- Financial Modeling
- Budget **Monitoring and Control**
- **Fund Transfers and Adjustments (removed to form part on new policy on Adjustment Budget)**

7. OVERALL OBJECTIVES, PRINCIPLES AND ROLES

7.1. OBJECTIVES OF BUDGET MANAGEMENT POLICY

The objective of the Budget **Management** Policy as contained in the MFMA is –

- To give effect to the provision of Section 215 of the Constitution of the Republic of South Africa, 1996;
- To give effect to the provision of the Local Government: Municipal Finance Management Act, (Act no. 56 of 2003)

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- To give effect to the Municipal System Act, (Act no.32 of 2000)

7.2. MOGALE CITY LOCAL MUNICIPALITY FINANCIAL MANAGEMENT STRATEGIC OBJECTIVES

To ensure sound governance practices within the municipality. Key Performance Area 4.1 (Good Governance) is achieved when the following are present:

- Participation
- Consensus orientation
- Strategic Vision
- Effectiveness and Efficiency
- Responsiveness
- Equity Building
- Rule of Law
- Transparency
- Accountability

7.3. PRINCIPLES

a. Principles of the Budget **Management** Policy are to be adhered to for implementation during the budgeting process.
b. **The municipality must prepare a credible budget that is in consistence with the IDP and be achievable in terms of service delivery and performance targets; revenue and expenditure projections.**
c. **The budget must be realistic, and the implementation thereof must improve financial viability of the municipality.**
d. **The budget should be prepared on a limited basis such that the expenditure is limited to the actual revenue received in the previous year and any additional funds received should be credited to the reserve fund as per funding and reserve policy.**
e. Rates and increases take into account the need to address infrastructure backlog.
f. **Maintain best practice logics within the planning context always taking into consideration both internal (capacity building) and external (economic, employment, CPI, Census) factors within planning context and always take into consideration the funded budget constraints.**
g. An analysis of performance trend in terms operational and capital components, with specific attention being given to underperformance.
h. No detail business plans and failure to meet deadlines given no budget allocation.
i. **"Ring –fence" all conditional grants**
j. Tariff increase to respond to the following:
    - Population growth rate
    - **Cost of providing trading services**
    - **Affordability of services by residents**

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- **Indigent Management Policy**

k. Repairs & Maintenance Budget as a **6% of the total value** our assets (to preserve the municipality's quality infrastructure).

l. **The municipality will strive to renew, upgrade and maintain its assets to deliver quality service to all; this will be achieved with the allocation of 6% of the total value of assets on repairs & maintenance over the MTREF period and 35% of the capital budget for assets renewal.**

m. **Review Provincial and National unfunded mandates as they pose institutional and financial risks to the municipality since substantial amount of own funding is allocated to non-core functions at the expense of service delivery.**

7.4. ROLE OF THE EXECUTIVE MAYOR

The Municipal Council must maintain oversight over the implementation of Budget **Management** Policy. For the purpose of such oversight, the **Executive** Mayor of the Municipality must:

- Provide political guidance on the priorities to be included in the IDP/Budget proposals and coordinates the annual IDP/Budget process.
- Take all reasonable steps to ensure that the municipality performs its constitutional statutory functions within the limits of the municipality's approved budget.
- The mayor must, within 30 days of the end of each quarter, submit a report to the Municipal Council on the implementation of the Budget and the financial state of affairs of the municipality; and
- Instructs the Accounting Officer to ensure that the budget is implemented in accordance with the service delivery and budget implementation plan and that the spending of funds and revenue collection proceed in accordance with the budget.

Section 29(1) of the MFMA allows **the Mayor**, in an emergency or other exceptional circumstances, to authorise **unforeseeable and unavoidable expenditure for which no provision was made in the approved budget**.
But section 29(2) imposes conditions, including that the expenditure:

- must comply with the prescribed framework;
- may not exceed the prescribed 10% percentage of the approved annual budget;
- must be reported by the Mayor to Council at its next meeting; and
- must be appropriated in an adjustments budget.

7.5. ROLE OF THE ACCOUNTING OFFICER (MUNICIPAL MANAGER)

The Municipal Manager is the Accounting Officer and the administrative authority for the municipality. In the first instance, the Municipal Manager is accountable to the Executive Mayor for the implementation of specific agreed outputs.

In the second instance, the Municipal Manager is accountable to the Municipal Council from the overall administration of the municipality. The Municipal Manager must be fully aware of

the reforms required in order to provide the Executive Mayor, Councilors, Senior Officials with the appropriate guidance and advice on financial and budget issues. Whilst the Municipal Manager may delegate many task to the Chief Financial Officer or other senior officials, this must be done carefully to ensure that all tasks are completed appropriately in the budget and with the strictest legal compliance. **The Accounting Officer (Municipal Manager) should:**

- Implement the municipality's approved budget, including taking all reasonable steps to ensure that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget;
- Ensure that revenue and expenditure are properly monitored;
- Ensure that unauthorized, irregular or fruitless and wasteful expenditure and other losses are prevented;
- When necessary, the Accounting Officer must prepare an adjustment budget and submit it to the Executive Mayor for consideration and tabling in the municipal council;
- Report to the Municipal Council any shortfalls in budget revenue, overspending and necessary steps taken to prevent shortfalls or overspending; and
- Submit to the Executive Mayor actual revenue, borrowings, expenditure and where necessary report the variances on revenue and the budget.

7.6. THE ROLE OF CHIEF FINANCIAL OFFICER (CFO)

The Chief Financial Officer is administratively in charge of the Budget and Treasury office. The Chief Financial Officer has an essential function in assisting the Municipal Manager to carry out his or her financial management responsibilities, in areas ranging from budget preparation to reporting and the development and maintenance of internal control procedures.

The Chief Financial Officer plays a central role in implementing the financial reforms at the direction of the Municipal Manager with assistance of appropriately skilled staff.

7.7. THE ROLE OF SENIOR MANAGERS AND OTHER OFFICIALS

According to Section 78 (1) of the MFMA, senior managers and other officials are responsible for ensuring the following:

- that the system of financial management and internal control established for the municipality is carried out diligently;
- ensure that the financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;
- prevent any unauthorized, irregular or fruitless and wasteful expenditure and other losses;
- that all revenue due to the municipality is collected;
- that the assets and liabilities of the municipality are managed effectively and that assets are safeguarded and maintained; and

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- submission of information to the Accounting Officer for compliance with the MFMA is timeous.

8. FINANCIAL PLANNING AND COORDINATION

Following from the IDP and strategic planning process, a new process takes shape, namely the budgeting process. Budgeting is in essence a set of individual activities linked together in an orderly way to produce the budget.

Budgetary planning and control has the following objectives:

- **To ensure that municipality planning speaks to the overall government policies (G2055 strategic pathway ,National and Provincial outcome and NDP)**
- **To ensure that the municipality development strategy objectives are achieved through the Integrated Development Plan ,MTREF,SDBIP and the Budget process**
- To compel proper planning;
- To communicate ideas and plans;
- To provide a framework for responsibility accounting;
- To establish a system of control; and
- To motivate employees to improve their performance.
- **To ensure compliance with set standards in accordance with performance management framework.**

8.1. STEPS IN THE BUDGET PROCESS:

- Under the MFMA (section 53(1)), the Executive Mayor is responsible for co-coordinating the annual revision of the IDP and annual budget. The Municipal Manager must assist the Executive Mayor and provide him with administrative support, resources and information.
- The Executive Mayor is the Chairperson of the Committee.
- The roles of the Budget Steering Committee are to:
    - To recommend to Council the approval of the process and timescales to be followed;
    - To monitor progress and take remedial action if things are not going according to the process plan;
    - Agree to the public consultation process to be followed for the IDP and Budget proposals
    - Provide political and senior management oversight on the IDP/Budget process plan implementation and proposals emerging from the process
- In addition to the above budget process, an IDP/Budget Task Team was established which is chaired by the CFO to manage all the operational and administrative aspects of the IDP/Budget Process Plan, including scrutinizing the capital project proposals from Departments to assess whether:
    - The proposal is actually capital expenditure rather than operational expenditure;
    - The capital estimates is accurate

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- There are operational budget implications of including the project in the capital budget;
- The capital project proposal is in line with IDP priorities;
- The proposed project plan to be included in the SDBIP is deliverable and
- The cash flow forecast is robust.

- Subsequently the Chief Financial Officer will issue budget work plan to various heads of departments based on an approved time schedule of key deadlines by council. These instructions normally are issued in September of each year, and will contain:
  - A timetable for the completion and approval of the budget, including confirmation of responsibilities;
  - The initial Medium Term Financial Forecast (MTFF) indicates the likely level of resources to be available. e.g. percentage increases in salaries and wages that will be granted during the budget year, and guidance issued annually by National Treasury with which the municipality will need to comply in terms of National government policy.

8.2. IDP/BUDGET TIME SCHEDULE FRAMEWORK

- Section 21 (a) of the MFMA prescribes that the "Mayor of the Municipality must co-ordinate the process for preparing the annual budget and for reviewing the municipality's integrated development plan and budget related policies to ensure that the tabled budget and any revisions of the IDP and budget related policies are mutually consistent and credible",

- Section 21 (b) further prescribes that such co-ordination must be reduced to a comprehensive plan detailing the key deadline for the preparation, tabling and approval of the budget, the annual review of the integrated development plan and budget related policies, this has to be tabled at least 10 months before the start of the budget year.

- The Budget Committee chaired by MMC of Finance is tasked with ensuring that the budget time framework is implemented.

8.3. COMMUNITY CONSULTATION PROCESS

- According to Section 22 of the MFMA, immediately after the budget is tabled in a Municipal Council the Accounting Officer must make public the budget and documents; Invite the local community to submit representations in connection with the budget; and submit the budget to the National Treasury and the relevant provincial treasury in printed and electronic formats.

- The Ward Committees play a significant role in conducting various consultative meetings to receive submissions from stakeholder's formations.

- After considering all budget submissions, the Council must give the Executive Mayor an opportunity to respond to the submissions; and if necessary, to revise the budget and table amendments for consideration by the Council.

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9. BUDGET COMPILATION

9.1.1. PART ONE: OPERATING BUDGET

a. OPERATING REVENUE

- The Municipality derives its revenue from the following major sources: Property/Assessment) Rates, Electricity, Water, Sanitation, Refuse Removal, Operating and Capital grants (from government and District Municipality) and the balance through minor other charges such as building plan fees and cemeteries fees (direct revenue).

- Trading undertakings and economics services such as water and electricity are supposed to be self-supporting or yield a surplus respectively and therefore constitute an important part of the revenue of the local authority. Service charges are levied to generate the necessary revenue from the services to render these services effectively. Subsidized and community services are mostly financed from property rates/ (assessment rates) and limited subsidization by other spheres of government.

b. REVENUE ITEMS

- The budgeting and accounting system makes provision for a considerable number of revenue items, also known as general ledger accounts. A complete list of items currently in use is attached for reference purposes. The structure of the list is managed by the Budget & Treasury Division of the Finance Department. Requests for the addition of new items must be motivated and directed to the Budget & Treasury Division.

- Revenue groups - Revenue items are categorized in terms of GRAP in the following group:

  - Property rates
  - Service charges (Electricity, Water, Sanitation and Refuse removal)
  - Rental of facilities and equipment
  - Interest earned – external investment
  - Interest earned – outstanding debtors
  - Fines
  - Licenses and permits
  - Government grants and subsidies
  - Other revenue
  - Gains on disposal of Property, Plant and Equipment

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c. PROPERTY RATES

Section 3(1) of the Local Government Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA) and Section 62(1) (f) of the MFMA determines that a municipality must adopt and implement a rates policy on the levying of rates on ratable properties.

Council adopted the Rates Policy on 24 June 2009 following the public participation process. It must be noted that the Rates Policy is not a static document and has to be reviewed annually by Council during the budget process. The requirement of Section 3(e) of the MPRA to identify and quantify the cost to the municipality and any benefit to the local community, can only be determined during the budget process **and, after the new** General or **Supplementary** Valuation has been compiled.

d. TARIFFS

- Tariff charges are affected by external factors such as inflation, government directives and policies, as well as the employment and affordability of the demographics of the resident population. The growth parameters are set by National Treasury, consistent with the target range of the inflation band, to ensure that all spheres of government support the national macroeconomic
    - Policies and targets, unless it can be shown that external factors impact otherwise.

- The tariff setting process of Mogale City Local Municipality should be guided by tariff policy and methodologies, which provide a framework for implementing fair, transparent and affordable changes for the provision of services.

- The following principles and guidelines should be considered in tariff setting:

    - The ability of the community to pay for services received;
    - The average effect on consumer accounts;
    - Realistic revenue estimates through a conservative, objective and analytical process based on realistically expected revenue , taking into consideration available actual revenue and estimated growth percentages;
    - Identification and pursuance of grants from national, provincial and other agencies;
    - The impact of inflation, the municipal cost index and other cost increased;
    - An aggressive policy of collecting revenue (Credit Control and Debt Collection Policy);
    - Credible collection rates and collection improvement targets;
    - The ability to extend new services and the recovering of costs thereof; and
    - Actual performances

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- Tariffs for the main services will be compiled taking the revenue and tariff setting strategy as well as budgeting principles and guidelines into consideration.

- The tariffs for main services, property rates and all other tariffs (e.g. building plan fees and cemeteries fees) are increased annually during the budget process and are effective from 1 July each year.

- To have the tariff ready for inclusion in the draft budget report and documentation for community consultation purpose during March, the following should be adhered to:

    - Amended tariff structures and/or calculations for other services have to be submitted to the Finance Department by not later the end of November of the current financial year;
    - Tariffs for main services (excluding VAT) and property rates have to be submitted to the Finance Department by the relevant Departments (Water and Sanitation, Electricity and Waste removal) by not later than the end of January of the each year as all tariffs are to be revised annually;
    - All the tariff schedules should be in the format used for promulgation;
    - Any changes emanating since the approval of the draft budget for community consultation purposes will be included in the budget report and documentation to be considered by Council during May; and
    - For promulgation purpose, tariffs have to be approved by council at least 30 days prior to commencement of the new financial year.

e. INDIGENT MANAGEMENT POLICY

- Mogale City Local Municipality is committed to the provision of basic services to the poor.
- The Indigent Management Policy assists the Municipality in meeting its constitutional obligations as it comes to progressively realize the social and economic rights of its indigent residents.
- Mogale City Local Municipality makes use a portion of the equitable share (approximately 6%) to priorities its budget towards the poor households.

f. UNFUNDED AND UNDER- FUNDED MANDATES

- Services are to be rendered to the extent of the funding provided by the sphere of government concerned. The devolution of certain National and Provincial government competencies to local authorities and the funding thereof should be viewed within the context of the complex and evolving nature of inter-governmental fiscal relations and co-operative government principles contained in the constitution.

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- The understanding and definitions in financial terms of funded, under- funded and unfunded mandated are as follows:

    - Funded mandate – The revenue (the grant in particular) totally covers the related expenditure of rendering the services.
    - Under-funded/ co-funded mandate- The revenue (grant) only partially covers the expenditure and the deficit is subsequently financed (funded) by the Municipality.
    - Unfunded mandate – the total expenditure of the related mandate is financed by the Municipality in order to render the service.

9.1.2. OPERATING EXPENDITURE

a. EXPENDITURE ITEMS

The budgeting and accounting system makes provision for a considerable number of expenditure and items known as general ledger accounts. Requests for the addition or renewal of items must be motivated and directed at the Budget & Treasury Division of the Finance Department.

b. EXPENDITURE GROUP

Expenditure items are categorized in terms of GFS classification in the following groups that correlate with the group used in the Statement of Financial Performance (Revenue Statement):

- Employee related costs
- Remuneration of Councilors
- Bad debts/Contribution to provisions
- Collection costs
- Depreciation
- Amortization of intangible assets
- Repairs and maintenance
- Interest paid
- Bulk purchases
- Contracted services
- Grants and subsidies paid
- General expenses
- Internal recoveries
- Loss on disposal of Property, Plant and Equipment

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c. MEDIUM – TERM REVENUE AND EXPENDITURE FRAMEWORK GUIDING PRINCIPLES (MTREF)

- The following guiding principles have to be considered when compiling the Medium-Term Revenue and Expenditure Framework:
    - Producing a balanced budget;
    - Maintaining fiscal stability;
    - Maintaining the commitment to deliver quality services;
    - Creating surplus cash to support capital investment;
    - The impact of inflation, the municipal cost index and other costs increases;
    - Credible collection rates and collection improvement targets;
    - Identify alternative funding (leverage with the private sector);
    - Free basic component provided to indigents must be taken into account;
    - Achievement of an annualized collection rate of 97% for consumer revenue (as per Strategic Plan: 5 Year Plan);
    - Ensuring that administrative and non-service areas (administrative and support functions) have been reduced and savings identified that could be used towards service delivery areas;
    - Managing down general expenditure and contracted services. The choice of a service provider should be based on which service provider can provide the service most effectively at the lowest cost (without compromising the quality of the goods/services);
    - Maintaining all assets at a level adequate to protect the capital investment and minimize future maintenance and replacement costs.

- In addressing the budget pressures, the Municipality will (through the implementation of the Financial Turnaround Strategy) continue to move towards cost-reduction, mainly by scrutinizing discretionary items, not limited to the following:

    - Scaling down the cost of consulting services,
    - Paying bills on time so that no late charges are incurred;
    - Managing overtime;
    - Reducing the amount of legal fees;
    - Managing down IT costs;
    - Delaying conferences and seminars;
    - Renegotiating some of the contracts
    - Limiting overseas trips;
    - Limiting purchasing of furniture; and
    - Limiting office renovations.

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9.2. PART TWO: CAPITAL BUDGET

9.2.1. CONDITIONS OF CAPITALIZATION

- According to GRAP 17 property, plant and equipment are tangible items that:
    - Are held in use in the production or supply of goods or services, for rental to others, for administrative purposes, and
    - Are expected to be used during more than one reporting period.
- Control, and not ownership, determines whether an item must be recognized as an asset in the municipalities, assets register (although control usually coincides with the transfer of ownership). In some cases control may possibly already have been established before actual ownership has taken effect. Due consideration must be given to ascertain whether control over asset is certain and indeed exercised by municipality. Subsequent cost against an item of property, plant and equipment not under the control of Mogale City Local Municipality may also not be approved and should therefore not be included in the capital budget.
- The definition refers to tangible (physical) property, plant and equipment. Certain intangible assets that are directly attributable to the realization of tangible, plant and equipment (PPE) are also recognized. This includes all development costs related to creation of an assets, but not feasibility studies, basic planning costs, multi-option designs, as it must be certain at the time the costs are incurred that the eventual assets will indeed realize.
- The threshold value (minimum acquisition price) is used, amongst other qualification set out by GAMAP/GRAP, to determine which items need to be capitalized and included in the Asset Register. GRAP 17 requires that all mayor assets' useful lives be reviewed every year. The capitalization threshold is from R1000.00 to R5000.00 for major assets; assets below R5000.00 up to R1000.00 will be treated as minor assets and will be depreciated over 1 year. Asset with a value below R1000.00 and above R500.00 with an estimated useful life of 1 year will also be treated as minor assets.
- All finance leases must be capitalized and will be registered in the assets register. A lease is classified as a finance lease, other than an operating lease, when it transfers substantially all the risks and rewards incident to ownership of the assets from the lessor to the lessee, in return for a payment or series of payments by the lessee to the lessor.

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9.2.2. BUDGETING FOR ASSETS

- Only assets approved by the IDP process will be considered for the inclusion in the capital budget.

- All draft capital budgets must be in line with this policy and submitted to Council for approval whereupon the Budget Office will put procedures in place to ensure that the Capital provided for in the budget is captured in the approved system per Work breakdown Structure. The capturing of this information will be in line with the mSCOA approved framework from the 2017/18 financial year.

- Excess budget available on Capital projects may not be used for the purpose other than what the projects was initially intended for. For example, excess budget available on a capital project for upgrading of Electricity Networks (owing to savings for instance) may not be used to purchase computers.

9.2.3. RECOGNITION OF THE COSTS

- The costs of an item of property, plant and equipment shall be recognised as an asset if, and only if;
    - It is probable that future economic benefits or service potential associated with the item will follow to the entity; and
    - the cost or fair value of the item can be measured reliably.
- Costs will only be recognized as assets if it is probable that future economic benefits or services potential will flow to the municipality. It must therefore be expected that the items may in future be held in use, either for production or for supply of goods or services, for rental to others or for administrative purposes (expected useful).
- Items of which the costs of fair value cannot be measured reliably may not be capitalized. In most cases, the costs will be readily identifiable as being the total construction costs or purchase costs of the assets. However, in some cases it might be necessary to measure the costs by making use of estimations, independent valuations, industry standards, etc.
- A capital project that appears on the capital budget is only partial evidence that the expenditure may need to be capitalized on incurrence, therefore. Projects that have a capital appearance and nature (and have therefore been budgeted as capital) but which may not be capitalized, either partially or fully, will be adjusted to ensure that only costs that comply with this policy are capitalized. The adjustment will therefore be transferred to the operating account.

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9.2.4. RECOGNITION OF PROPERTY, PLANT AND EQUIPMENT

- The expected use of the PPE must extend over more than one reporting period (financial year). It therefore follows that the assets must each have a useful life of more than one year. Property held for the purpose of resale within a financial year, for example, is consequently recognized as current assets.

- Capital projects started during a financial year but not completed at the end of the financial year will be treated as work- in- progress in the financial statements.

- Projects system (capital projects), through which assets are acquired/ constructed and the resulting costs incurred must be broken down in such a way that the individual assets, together with their respective costs and originating funding sources, are easily identifiable. This will ensure that the assets are correctly recognized on the assets register. The budgeted amount may not be released against a project unless it has been properly broken down.

- It is imperative that all heads of department, under whose control the assets fall, should notify Supply Chain Management immediately when their projects have been completed and the resulting assets realized in order to ensure the timely registration of these assets on the assets register.

- The process whereby Supply Chain Management is informed of the completion of a project is the marking of the projects as “technically complete” by the project manager/cost center.

- The process whereby physical assets are donated to the municipality is an exception to the capitalization of assets through projects. However, costs centers owners remain responsible to notify Supply Chain Management of these donations, by making use of the appropriate assets management form, to ensure recognition of the donated assets on the assets register.

9.2.5. DEPRECIATION

- Depreciation is, according to GRAP 17, the systematic allocation of the depreciable amount of an asset over its useful life. Depreciable amount is the cost of an asset or another amount substituted for cost, less its residual value. Depreciation forms part of the cost charged to the cost center where the assets is used and must be included in the operating budget likewise.

- All fixed assets, except land and heritage assets, shall be depreciated or amortized in the case of intangible assets. Depreciation will be considered with the help of Fixed Assets Management Policy.

- An asset is depreciated over its useful life. The useful life refers to the asset’s expected use to the Municipality and is an estimated based on sound judgment, practicality and the lifespan of similar/the-same assets owned by the Municipality.

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The Municipality employs the straight-line method in the calculation of depreciation.

- The depreciation charge for each period is recognized as an expense in the operating budget as well as the fiscal year's Financial Statement.

10. BUDGET MONITORING AND REVIEW

10.1. PART ONE: MONITORING

a. MONITORING PERFORMANCE

- It is important to monitor and review the actual and planned revenue received and expenditure incurred to ensure accountability, transparency and control in the financial affairs of all departments/votes in Mogale City.

- The public has a right to know what municipal funds are being spent on, and what decisions their elected representatives make on their behalf. It is only with this knowledge that elected official may be held accountable for their budget planning, allocations and implementation.

- Monitoring budgets is also conducive to better decision-making. It provides a forum for purposeful and concrete engagement between the executive, the legislature and civil society around critical choices and outcomes.

- In Mogale City Local Municipality, the approved budget is categorized into Operating and Capital budgets and therefore the monitoring thereof will be done accordingly.

- Both Capital and Operating Budgets should also ensure strict compliance with mSCOA regulations and frameworks. Compliance with mSCOA will also be monitored throughout the budget compilation process.

- Revenue and Expenditure Groups are categorized in terms of GRAP and aligned to the approved MTREF budget. Different rules will be applicable to manageable and non-manageable groups of revenue and expenditure in so far as budget monitoring and control are concerned.

b. FINANCIAL VIABILITY

- Monitoring and the financial viability of Council, particularly transactions affecting Cash Flows, is essential as it has direct impact on Council pursuing its activities as set out in its Strategic Plan. Cash flow management is critical due to the

requirements of the MFMA. Section 45 of this Act severely limits the municipality's ability to use short-term debt.

- During the budget compilation process Departments are required to do periodic planning of all revenue and expenditure for both operating and capital budgets for the following reasons:
    - For monitoring of performance as explained:
    - For the proper cash flow planning. If the Finance Department is forced to arrange for additional loans to bridge the gap caused by a deviation from the periodic planning, the interest on such loans can be seen as fruitless and wasteful expenditure.

- Periodic planning for operating revenue and expenditure differ from the planning for capital budget expenditure:
    - Planning for the operating budget is done per line item; and
    - Planning for the Capital budget is done per project.

- Previous revenue and expenditure patterns will assist cost center managers in setting the timing of the cash flows, but they may also be led by other factors.

10.2. REPORTING

a. OPERATING AND CAPITAL BUDGET

- The purpose of reporting on operating and capital expenditure budget is to provide reasons for the deviations from the SDBIP and to give details of corrective measures that will be taken.
- Based on the definition of a "Votes" in terms of the MFMA, each Department/ within the Municipality is considered a "Vote" and aligned to the approved MTREF, in terms of both the capital and the operating budgets.
- The individual head of departments. Executive Managers are accountable to report to the Municipal Manager and the Chief Financial Officer on a capital monthly/ quarterly and annual basis on the deviations in operating and capital budget.
- Monitoring of variances for capital projects is the comparison of actual expenditure against expenditure targets set in the Service Delivery and Budget Implementation Plan (SDBIP) as well as the indicated milestone for the projects.
- Internal Reporting Mechanism:
    - Each month end, every cost center owner will submit a variance report on deviated line items to their Executive Manager and their Departmental Support Services (Finance);
    - Each month end every project owner will submit a variance report on project variances to their respective Executive Manager and their Departmental Support Services (Finance)

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11. ADDITIONS /AND OR AMENDMENTS

Changes were made from the Policy to allow mSCOA regulations to be inserted into the Policy thus ensuring compliance with National Treasury Regulations.

12. COMMENCEMENT

This Policy will be in effect from 1 July 2025 after the approval and adoption of the Municipal Council.

13. APPROVAL OF BUDGET MANAGEMENT POLICY

This Policy will be in effect when the signatories hereof, being duly authorized thereto, by their signatures hereto authorize the execution of the work detailed herein and confirm their acceptance of the contents hereof and authorize the implementation/adoption thereof, as the case may be, for and on behalf of the parties represented by them.

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