

# DRAFT BUDGET POLICY

## BUSHBUCKRIDGE LOCAL MUNICIPALITY BUDGET AND TREASURY OFFICE



## BUDGET POLICY PREAMBLE

To ensure sound and sustainable management of the financial affairs of the municipality. To establish treasury norms and standards for the local sphere of government. To provide for the matters connected therewith, within the prescripts of legislations applicable to local government.

**WHEREAS:** Section 215 of the Constitution of the Republic of 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 budgets in each sphere of government must contain estimates of revenue and expenditure, differentiating between operating and capital expenditure; proposals for financing any anticipated deficit for the period to which apply; and indication of the intentions regarding borrowing and other forms of municipal liability that will increase the municipal debt during the year.

**WHEREAS:** Section 16 of the Local Government: Municipal Finance Management Act, 2003 (Acts 56 of 2003) requires that a municipality approves an annual budget before the start of the financial year, adopt, maintain and implement the budget policy;

**WHEREAS:** Section 56 of the Municipal structures Act, 1998 (Act 117 of 1998) prescribes the functions and powers of the Executive Mayor who must recommend to the municipality the Intergrated 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 relevant officials.

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

**AND WHEREAS:** The council has approved a five year programme which prescribes the management of the municipal's financial affairs through the determination of priorities and the planning and monitoring of the Medium Term Revenue and Expenditure Framework.

**Now THEREFORE**, the council of Bushbuckridge Local Municipality adopts the Budget Policy as set out in this document.

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## 1. PREFACE

Council policies are simply action plans that describe how a municipality is going to achieve its vision. When council approve a policy, they set the broad framework within which the councilors and officials will take decisions, and how they will be implemented. Efficient financial planning and management will ensure that the funds are transparently planned for and will ensure sound and sustainable management of the fiscal and financial affairs of the municipality through implementation of sound council policies.

Accountability as a function of financial management, is a very important duty for both councilors and officials. Residents of the municipal area indicated their trust in those elected to effectively manage the funds contributed to Local Government. This is a great responsibility as local authorities are responsible for managing significant amounts of money and delivering services that affect the people on daily basis. Councilors and officials have a duty to ensure that these monies are managed properly. The budget policy is an integral part of sound financial management that is required to meet the responsibility that the community bestowed on the councilors and officials.

The formulation of a budget policy has become essential to enable the municipality to attain its strategic objectives in line with the municipality's forward looking development strategy and to comply with the Municipal Finance Management Act, 2003 (Act 56 of 2003) (MFMA). In the absence of a standard guideline or existing budget policy in any spheres of government, the municipality hereby formulated a credible budget policy. It is envisaged that this policy may be amended from time to time, depending on legislative and/ or institutional changes.

The Budget Policy is prepared based on guidelines, received from National Treasury pertaining to local government. Since the inception of these guidelines it served two purposes:

- It details the process and format that strategic units are requested to follow when preparing their budget documentation, and
- Key budget reforms are announced and advice is given on best practice when implementing changes and enhancements in the manner in which public finances are managed.

The users of this policy should therefore refer to the legislation for the exact text.

## **2. OVERALL OBJECTIVE, PRINCIPLES & ROLES**

To set out the budgeting principles which the municipality will follow in preparing each annual budget, as well as the responsibilities of the chief financial officer in compiling such budget.

The goal of this Budget Policy is to provide all officials with the guidelines with respect to the planning and budgeting processes as detailed in the policy.

### **2.1 OBJECTIVES OF THE BUDGET POLICY**

The objectives of the budget policy as contained in the MFMA:

- (a) To give effect to the provisions of Section 215 of the Constitution of the RSA, 1996;
- (b) To give effect to the provisions of the Local Government: Municipal Finance Management Act, (Act no.56 of 2003);
- (c) To give effect to the Municipal Systems Act, (Act no.32 of 2000)

## 2.2 MUNICIPAL FINANCIAL MANAGEMENT STRATEGIC OBJECTIVES

- To ensure good governance, financial viability and optimal institutional transformation with capacity to execute its mandate. Key Performance Area:
- To promote sound governance and ensure financial sustainability is achieved through the following:
  - Participation
  - Strategic vision
  - Transparency
  - Accountability
  - Effectiveness
  - Efficiency
  - Responsiveness
  - Rule of law.

## 2.3 PRINCIPLES

Principles of the Budget Policy are to be adhered to for the implementation during the budgeting process:

- (a) The balanced budget constraint in terms of the MFMA must be adhered to.
- (b) Special attention needs to be given to efficiency gains and the principles of value for money.
- (c) The budget must be specifically aligned to the imperatives of the IDP, municipal developmental strategy and the broader targets and objectives of the municipality.
- (d) Intermediary service level standards should be utilized to subsequently inform the measurable objectives, targets and backlog eradication goals.
- (e) Tariff and Property Rate increases should be affordable and par with the CPI, however sustainability of service delivery and addressing infrastructure backlogs will determine the necessary percentage increase.
- (f) With regard to compilation of the capital budget:

- The capital budget component of the annual or adjustments budget shall only be approved by the council if it has been properly balanced, that is, if the sources of finance which are realistically envisaged to fund the budget equal the proposed capital expenses.
- Before approving the capital budget component of the annual or adjustments budget, the council shall consider the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets, and any other ordinary operational expenses associated with any item on such capital budget. In addition, the council shall consider the likely impact of such operation expenses – net of any revenues expected to be generated by such item – on future property rates and service tariffs.
- Except in so far as capital projects represent a contractual commitment to the municipality extending over more than one financial year, the annual capital budget shall be prepared from a zero base.
- The outer years as approved with the previous MTREF will be utilized as the departure point.
- Incomplete projects will be roll over to the next financial year, and will be considered as first priority.
- Contractually bound and on-going projects will take preference.
- Should any funding capacity be available after funding the above mentioned, new projects will be prioritized and funded in terms of the council priority, value for money, benefit for the municipality and strategic objectives.
- No budget will be allocated to the capital projects, unless the request is included in the IDP and is supported by a project plan
  - Feasibility studies must have indicated the financial viability of the project
  - Total project costs, including projected future operational costs must be indicated

- No budget will be allocated for external funded projects, unless it is gazette in terms of the DoRA, or the request is supported by a written confirmation from the external source or specific grant.
- (g) Salary increases will be based on SALGA wage agreement.
- (h) Repairs and Maintenance budget will be increased in real terms.
- (i) Units / Departments must ensure that the projected cash flow is aligned to their operational and capital projects plans in order to assist with the municipality cash flow management.
- (j) It should be noted that the motivations received for other line items will be evaluated per project or item to be purchased, and funding will be allocated according to mainly affordability, priority, value for money and benefit of the municipality. Not all requests motivated will necessarily receive funding.
- (k) The council shall establish an asset financing reserve for the purpose of financing capital projects and the acquisition of capital assets. Such reserve shall be established from the following sources of revenue:
  - unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
  - interest on the investments of the asset financing reserve, appropriated in terms of the banking and investments policy;
  - further amounts appropriated as contributions in each annual or adjustments budget; and
  - net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy.
- (l) Each annual and adjustments budget shall reflect realistic excess, however nominal, of current revenues over expenses.
- (m) Any unappropriated surplus from previous financial years, even if fully cash-backed, shall not be used to balance any annual or adjustments budget, but shall be appropriated, as far as it is not required to finance the payment of operating



creditors or for other operational purposes, to the municipality's asset financing reserve.

- (n) An impending operating deficit shall be made good in an adjustments budget, but if an operating deficit arises at the end of a financial year, notwithstanding the precautionary measures adopted by the council, such deficit shall immediately be made good in the annual or adjustments budget for the ensuing financial year, and shall not be offset against any unappropriated surplus carried forward from preceding financial years.
- (o) The municipality shall establish and maintain a provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.
- (p) The municipality shall establish and maintain a provision for bad debts in accordance with its rates and tariffs policies, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.
- (q) The municipality shall establish and maintain a provision for the obsolescence and deterioration of stock in accordance with its stores management policy, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.
- (r) All expenses, including depreciation expenses, shall be cash-funded. The cash received in respect of depreciation expenses on fixed assets financed from external borrowings shall be transferred to the investments created to redeem such borrowings.
- (s) Finance charges payable by the municipality shall be apportioned between departments or votes on the basis of the proportion at the last balance sheet date of the carrying value of the fixed assets belonging to such department or vote to the aggregate carrying value of all fixed assets in the municipality. However, where it is the council's policy to raise external loans only for the financing of fixed assets in specified council services, finance charges shall be charged to or apportioned only between the departments or votes relating to such services.

- (t) Depreciation and finance charges together shall not exceed 20% of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget.
- (u) The allocation of interest earned on the municipality's investments shall be budgeted for in terms of the banking and investment policy.
- (v) The municipality shall adequately provide in each annual and adjustments budget for the maintenance of its fixed assets in accordance with its fixed asset management and accounting policy. At least 5% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.
- (w) In the preparation of the REVISED operating budget component of the annual budget, the allowable budgetary increment shall relate to the total amount provided for each budget vote, and the head of the department, service or function concerned shall have the right to allocate the total budgeted amount to the line-items within such vote, except in so far as the line-item provisions relate to matters determined by the chief financial officer in terms of the municipality's approved policies and contractual and statutory commitments (for example, depreciation charges, finance charges, insurance costs, contributions, skills development levies payable).
- (x) Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits shall be separately prepared, and shall not exceed 30% of the aggregate operating budget component of the annual or adjustments budget. For purposes of applying this principle, the remuneration of political office bearers and other councillors shall be excluded from this limit.
- (y) The head of the department, service or function to which each budget vote relates shall justify the allocation of the aggregate budget for such vote to the various line-items within the vote to the portfolio committee responsible for the department, service or function concerned. In motivating the allocations made to and within the vote, the head of department, service or function concerned shall provide the relevant portfolio committee with appropriate quarterly performance indicators and service delivery targets pertaining to the budget. Such indicators and targets shall be prepared with the approval of the municipal manager and the mayor.

- (z) In preparing its revenue budget, the municipality shall strive to maintain the aggregate revenues from property rates at not less than 25% of the aggregate revenues budgeted for.
- (aa) When considering the REVISED annual budget, the council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households in the municipal area. The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts. Because households have no mechanism for passing on such increases to other parties, but must fully absorb the increases concerned, the council shall ensure that the average additional impact of such increases is not more than the relevant increase in the consumer price index.

## **2.4 ROLES AND RESPONSIBILITIES**

### **2.4.1 RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER**

- Without derogating in any way from the legal responsibilities of the municipal manager as accounting officer, the chief financial officer shall be responsible for preparing the REVISED annual capital and operating budgets (including the budget components required for the ensuing financial years), any required adjustments budgets, the projections of revenues and expenses for the service delivery and budget implementation plan (including the alignment of such projections with the cash management programme prepared in terms of the banking and investments policy), and shall be accountable to the municipal manager in regard to the performance of these functions.
- The municipal manager shall ensure that all heads of departments provide the inputs required by the chief financial officer into these budget processes.
- The chief financial officer shall REVISED the budget timetable for the ensuing financial year for the mayor's approval, and shall indicate in such timetable the target dates for the REVISED revision of the annual budget and the preparation of the annual budget for the ensuing financial year, which target dates shall follow the prescriptions of the Municipal Finance

Management Act, and target dates for the submission of all the budget-related documentation to the mayor, finance committee, executive committee and council.

- Except where the chief financial officer, with the consent of the mayor and municipal manager, decides otherwise, the sequence in which each annual budget and adjustments budget shall be prepared, shall be: first, the capital component, and second, the operating component. The operating component shall duly reflect the impact of the capital component on:
  - depreciation charges
  - repairs and maintenance expenses
  - interest payable on external borrowings
  - other operating expenses.
- In preparing the operating budget, the chief financial officer shall determine the number and type of votes to be used and the line-items to be shown under each vote, provided that in so doing the chief financial officer shall properly and adequately reflect the organisational structure of the municipality, and further in so doing shall comply – in so far as the organisational structure permits – also with the prescribed budget format of National Treasury.
- In preparing the operating budget, the chief financial officer shall determine the number and type of votes to be used and the line-items to be shown under each vote, provided that in so doing the chief financial officer shall properly and adequately reflect the organisational structure of the municipality, and further in so doing shall comply – in so far as the organisational structure permits – also with the prescribed budget format of National Treasury.
- The chief financial officer shall determine the depreciation expenses to be charged to each vote, the apportionment of interest payable to the appropriate votes and the contributions to the provisions for bad debts, accrued leave entitlements and obsolescence of stocks.

- The Chief Financial Officer shall further, with the approval of the mayor and the municipal manager, determine the recommended contribution to the asset financing reserve.
- The Chief Financial Officer shall also, again with the approval of the mayor and the municipal manager, and having regard to the municipality's current financial performance, determine the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be REVISED.
- The Chief Financial Officer shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections, and the heads of departments shall timeously and adequately furnish the chief financial officer with all explanations required for deviations from the budget. The chief financial officer shall submit these monthly reports to the mayor, finance committee and executive committee, and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act.
- The Chief Financial Officer shall provide technical and administrative support to the mayor in the preparation and approval of the annual and adjustment budgets, as well as in the consultative processes, which must precede the approval of such budgets.
- The chief financial officer shall ensure that the annual and adjustments budgets comply with the requirements of the National Treasury reflect the budget priorities determined by the mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the mayor on the revision of the IDP and the budget-related policies where these are indicated.
- The chief financial officer shall make recommendations on the financing of the REVISED capital budget for the ensuing and future financial years, indicating the impact of viable alternative financing scenarios on future expenses, and specifically commenting on the relative financial merits of internal and external financing options.

- The chief financial officer shall determine the basis for allocating overhead expenses not directly chargeable to votes. The expenses associated with the democratic process shall be allocated to a separate vote, and shall not be charged out as an overhead.
- The chief financial officer shall ensure that the cost of indigency relief is separately reflected in the appropriate votes.
- The chief financial officer shall ensure that the allocations from other organs of state are properly reflected in the annual and adjustments budget, and that the estimated expenses against such allocations (other than the equitable share) are appropriately recorded

#### **2.4.2 ROLE OF SENIOR MANAGERS AND OTHER OFFICIALS**

According to the MFMA, the following are the roles and responsibilities to be carried out by the Senior Managers and officials:

- That the system of financial management and internal controls established for the municipality are been carried out diligently;
- Ensure that the resources of the municipality are been utilized effectively, efficiently, economically and transparently;
- Prevent unauthorized, irregular, fruitful and wasteful expenditure and other losses;
- That all revenue that is due to the municipality is collected;
- Safeguarding, maintenance and management of assets;
- Submission of information to the accounting officer for compliance with the act.

The municipal manager shall ensure that all heads of departments provide the inputs required by the chief financial officer into these budget processes.

### **3. LEGAL REQUIREMENTS**

Bushbuckridge municipality is committed to comply with the applicable legislations as it pertains to budgeting and financial management. The following legislations will apply:

- (a) The Constitution of the Republic of South Africa Act No 108 of 1996
- (b) The Municipal Finance Management Act No 56 of 2003
- (c) The Municipal Systems Act No. 32 of 2000
- (d) The Municipal Structures Act. 117 of 1998
- (e) And other applicable by-laws, ordinance and legislations.

### **NATIONAL TREASURY PRACTICES NOTES**

Cognisance must be taken of all National Treasury Circulars that may have an impact on the budgeting process and procedures.

#### **3.1 THE FOLLOWING SECTIONS OF LEGISLATIONS WILL APPLY**

##### **3.1.1 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.

##### **3.1.2 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.

### 3.1.3 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:

- REVISED resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
- REVISED 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.

### **3.1.4 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.

### **3.1.5 Section 19 Capital projects**

- A municipality may spend money on a capital project only if the money for the project (including the cost of any required feasibility studies) has been appropriated in the capital budget.
- The total cost of the project must also be approved by the Council.
- The envisaged sources of funding for the capital budget must be properly considered, and the Council must be satisfied that this funding is available and has not been committed for other purposes.
- Before approving a capital project, the Council must consider the projected cost of the project over all the ensuing financial years until the project becomes operational, as well as the future operational costs and any

revenues which may arise in respect of such project, including the likely future impact on property rates and service tariffs.

### **3.1.6 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.

### **3.1.7 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 and all other local municipalities in the district.
- 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.

### **3.1.8 Section 22 Publication of annual budgets**

- Immediately after the annual budget has been tabled, the Municipal Manager must make this budget and other budget-related documentation public, and must invite the local community to submit representations in regard to such budget.
- The Municipal Manager must also immediately submit the tabled budget in both printed and electronic formats to the National Treasury, the Provincial Treasury, and in either format to prescribed national and provincial organs of state and other municipalities affected by the budget.

### **3.1.9 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.

#### **3.1.10 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.

#### **3.1.11 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.

**3.1.12 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.

**3.1.13 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.

**3.1.14 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.

### **3.1.15 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.

### **3.1.16 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.

### **3.1.17 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.

### **3.1.18 Section 32 Unauthorised, irregular or fruitless and wasteful expenditure**

Unauthorised expenses may be authorised in an adjustments budget. A report should be prepared through to council for condonation.

Irregular expenditure: the report should be prepared to council, stating the valid reasons for approvals by council.

Fruitless and wasteful expenditure should be recovered from the responsible official

**3.1.19 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.



**3.1.20 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.

**3.1.21 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.

### **3.1.22 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.

### **3.1.23 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.

### **3.1.24 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 REVISED 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 REVISEDs of the annual performance agreements to the Mayor.

**3.1.25 Section 70 Impending shortfalls, overspending and under collection**

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.

**3.1.26 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.

### **3.1.27 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.

**3.1.28 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.

**3.1.29 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.

### **3.1.30 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.

### **3.1.31 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.

### **3.1.32 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.

### **3.1.33 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.

### **3.1.34 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.

## **4. IMPLEMENTATION OF THE BUDGET POLICY**

The budget policy applies to:

- a) Financial Planning
- b) Financial Modelling
- c) Budget Capturing
- d) Budget Monitoring (Funds Transfers and Adjustments)
- e) Funds Management

## **5. FINANCIAL MODELLING**

Medium-term budgeting is based on a set of core principles that relate to:

- Guidelines
- Fiscal policy and budget framework
- Policy priorities
- Political oversight of the budget process
- Budgeting for improved service delivery



## 6. BUDGET COMPILATION

### 6.1 OPERATING BUDGET

#### 6.1.1 OPERATING REVENUE

- The municipality derives its revenue from the following major sources (Debtor Revenue): Property Rates, Water, Sanitation, Solid Waste Removal, Operating and Capital grants (from government) and the balance through minor other charges such as building plan fees (direct income).
- Trading undertakings and economic 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 a local authority. Services charges are levied to generate the necessary revenue from the services to render these services effectively. Subsidised and community services are mostly financed from property rates and limited subsidisation by other tiers of government.

#### 6.1.2 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 Accounting section of the treasury Management Division of the financial Services Department. Request for the addition of new items must be motivated and directed to the Budget Office for approval and then to the Accounting Section for implementation. The current list of items is attached here to as an annexure.
- Revenue groups  
Revenue items are categorized in terms of GRAP in the following groups:
  - Debtors revenue

- Direct income (including investment income)
- Grants and donations
- Gains on disposal of property, Plant and Equipment

All the revenue groups are to a large extent manageable by the strategic Executives/Directors.

### 6.1.3 PROPERTY RATES

- Two factors determine the amount that a property owner must pay to the municipality: first, the assessed value of the property and second, the effective assessment rate. The total proceeds from rates must therefore cover the shortfall on the provision of general services.
- Section 3(1) of the Local government Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA) and Section 62 (1) of the MFMA determines that a municipality must adopt and implement a rates policy

### 6.1.4 TARIFFS

- Tariffs charges are effected by a variety of external factors such as inflation, government directives and policies, as well as the employment and affordability demographics of the resident population
- The tariff setting process of the municipality should be guided by the various tariff policies and methodologies which provide a framework for implementing fair, transparent and affordable charges for the provision of services.

## 6.2. OPERATING EXPENDITURE

- The budgeting and accounting system makes a provision for a considerable number of expenditure items also known as general ledger accounts. Requests for the addition or renaming of items must be motivated and directed to the Budget Office for approval and implementataion.
- Expenditure items are categorized in terms of the following group which correlate with the groups used in the Statement of Financial Position :

- Employee related costs
- Remuneration of Councillors
- Debt Impairment
- Depreciation and Asset Impairment
- Finance Charges
- Bulk Purchases
- Other Materials
- Transfer and Grants
- Contracted Services
- Other expenditure
- Loss on disposal of PPE

#### 6.2.1 Medium – Term Revenue & Expenditure Framework guiding principles

The following guiding principles have to be considered when compiling the MTREF

- The ability of the community to pay for the services rendered.
- The average effect on consumer accounts.
- Realistic revenue estimates through a conservative, objective and analytical process based on realistic expected revenue.
- Identification and pursuance of grants from National, Provincial and other Agencies.
- Credible collection rates and collection improvement targets.
- Ensure ability to extend new services and recovering of costs.
- Free basic services provided to indigents must be taken in to account.
- Achievement of annual collection rate of at-least 75% for consumer revenue.
- Tariff increases in line with the resources required.
- Achievement of full cost recovery of specific user charges.

#### 6.3. Capital Budget

According to GRAP 17, Property, Plant and Equipment, (PPE) are tangible items:

- are held in use of the production or supply of goods and services,
- are expected to be used during more than one reporting period.

### 6.3.1. Budgeting for assets

All assets are to be acquired through capital projects registered on the financial system, from where the assets will be identified and placed on the asset register once the municipality has taken control of the assets.

Only assets approved by the IDP process will be considered for inclusion in the capital budget. All capital assets must be in line with this policy and submitted to council for approvals whereupon the Budget Office will put procedures in place to ensure that the capital projects provided for in the budget are captured in the approved system per work breakdown structure.

Excess budget available on capital projects may not be used for the purposes other than what the project was initially intended for. For example, excess budget available on a capital project for the building of road may not be used to purchase computers on the same project.

### 6.3.2. Recognition of PPE

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 yet completed at the end of financial year will be treated as work in progress in the financial statements.

### 6.3.3. 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 other amount

substituted for cost, less its residual value. Depreciation forms part of the cost charged to the profit centre where the asset is used and must be included in the operating budget likewise.

Assets capitalized will be depreciated except land because it does not depreciate and during preparation of the budget, depreciation will be considered with the help of the Asset Management Policy.

An asset is depreciated over its useful life. The useful life refers to the assets expected use to the municipality' and is an estimation based on sound judgement. The useful lives are assigned to the asset classes to which the assets belong. 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 statement of financial performance.

**7. BUDGET TIME TABLE ( TABLE BELOW)**

**SUMMARISED TIMETABLE**

**NOTE: DATES IN BRACKETS ARE PUTATIVE**

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

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

**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 <ul style="list-style-type: none"> <li>- preparation, tabling and approval of annual budget</li> <li>- annual review of IDP</li> <li>- annual review of budget-related policies</li> <li>- tabling and adoption of any amendments to IDP and budget-related policies</li> <li>- any consultative processes forming part of foregoing</li> </ul>	Mayor	Time schedule must either fit in with already scheduled council meetings or must indicate when special council meetings must be scheduled.
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.
54(1) and (2)	(Between 31 January and 31	If municipality faces “serious financial problems” mayor must “promptly” respond to and initiate	Mayor	Adjustments budgets may be prepared by the



	March)	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).		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 REVISED 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 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).
16(2)	31 March	Mayor must table (REVISED) annual budget of municipality at council meeting at least 90 days before start of budget year.	Mayor	Council meeting must be scheduled appropriately.
22(a) and 22(b)	Immediately after 31 March or earlier date if annual budget tabled before 31 March	Immediately after (REVISED) 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 (REVISED) 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.
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 REVISED service delivery and budget implementation plan, and REVISEDs 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 may change them and then only following the approval of an adjustments budget. See Section 54(1)(c)).	Mayor	-
53(1)(c)(iii)(aa) & (bb)	Within 28 days after date	Mayor must take all reasonable steps to ensure that annual performance agreements for municipal	Mayor	No date is specified for the completion of this

	annual budget approved (late June to late July)	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.		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.