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## Budget & Reporting Policy

## Centlec (SoC) – Budget & Reporting Policy

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CENTLEC (SOC) LTD	
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### **DEFINITIONS:**

“**Act**” means the Local Government Municipality Finance Management Act, 2003(Act No.56 of 2003);

“**Municipal entity**” means a private company referred to in section 86b (1) (a); a service utility; of a multi-jurisdiction service utility,;

“**Board of Directors**” in relation to the entity means the board of directors to the entity;

“**Standard of chart of Accounts**” means a multi-dimensional classification framework providing the method and format for recording and classifying financial transaction information in the general ledger forming part of the book of account containing a standard list of all available accounts.

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## **SECTION 1: OBJECTIVES OF BUDGET POLICY**

- a) To set out the budgeting principles which the entity will follow in preparing each annual budget and Medium Term Revenue and Expenditure Framework (MTREF);
- b) To set out the responsibilities of the Board of Directors, the Accounting Officer, the Chief Financial Officer and other Executive Managers in compiling the budget;
- c) To secure sound and sustainable management of the budgeting and reporting practices of the entity by complying with uniform norms and standards and other legislative requirements.
- d) To ensure transparency, accountability and appropriate lines of responsibility in budgeting and reporting processes of the entity as established by the National Treasury.

## **SECTION 2: LEGISLATIVE BACKGROUND**

Section 216 of the Constitution of the Republic of South Africa, 1996, provides that national legislation must prescribe measures to ensure transparency and expenditure control in each sphere of Government by introducing generally recognized accounting practice, uniform expenditure classifications and uniform treasury norms and standards.

In terms of section 87(1) of Municipal Finance Management Act, No 56 of 2003 (MFMA), the Board of Directors of a municipal entity must for each financial year submit a proposed budget for the entity to its parent municipality not later than 150 days before the start of the entity's financial year or earlier if requested by the parent municipality.

Section 87(4) further provides that the Board of Directors of a municipal entity must approve the budget of the municipal entity not later than 30 days before the start of the financial year, taking into account any hearings or recommendations of the council of the parent municipality.

According to section 87(5), the budget of a municipal entity must:

- a) be balanced;
- b) be consistent with any service delivery agreement or other agreement between the entity and the entity's parent municipality;
- c) be within any limits determined by the entity's parent municipality, including any limits on tariffs, revenue, expenditure and borrowing
- d) include a multi-year business plan for the entity that-

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- i. sets key financial and non-financial performance objectives and measurement criteria as agreed with the parent municipality;
  - ii. is consistent with the budget and integrated development plan of the entity's parent municipality;
  - iii. is consistent with any service delivery agreement or other agreement between the entity and the entity's parent municipality; and
  - iv. reflects actual and potential liabilities and commitments, including particulars of any proposed borrowing of money during the period to which the plan relates; and
- e) Otherwise comply with the requirements of section 17(1) and (2) to the extent that such requirements can reasonably be applied to the entity.

With regard to adjustment budget, section 87(6) provides that the Board of Directors of a municipal entity may, with the approval of the mayor, revise the budget of the municipal entity, but only for the following reasons:

- a) To adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
- b) to authorise expenditure of any additional allocations to the municipal entity from its parent municipality;
- c) to authorise, within a prescribed framework, any unforeseeable and unavoidable expenditure approved by the mayor of the parent municipality;
- d) To authorise any other expenditure within a prescribed framework.

A municipal entity may incur expenditure only in accordance with its approved budget or an adjustments budget [section 87(8)]

### **SECTION 3: POLICY PRINCIPLES**

The following principles shall apply in relation the entity's budgets:

- a) The entity shall not budget for a deficit and the Chief Financial Officer shall also ensure that revenue projections in the budget are realistic taking into account actual collection levels.
- b) The budget shall contain the information related to the two financial years following the financial year to which the budget relates (i.e. Medium Term Revenue and Expenditure Framework - MTREF) as well as the actual revenues and expenses for the prior year, and the estimated revenues and expenses for the current year.

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- c) The MTREF budget shall at all times be within the framework of the entity's Multi-Year Business Plan.
- d) The Accounting Officer (CEO) shall take all reasonable steps to ensure that the basis of measurement and accounting policies underpinning the entity's annual financial statements are the same as those used in the preparation of the entity's annual budget and supporting documentation, its adjustment budget and supporting documentation and the in-year reports, and any differences or changes between financial years are explicitly noted.
- e) Each annual and adjustments budget shall reflect realistic excess, however nominal, of current revenues over expenses.
- f) An impending operating deficit shall be made good in an adjustment budget, but if an operating deficit arises at the end of a financial year, notwithstanding the precautionary measures adopted by the Board of Directors, 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.
- g) 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.
- h) The allocation of interest earned on Centlec investments shall be budgeted for in terms of the Investment Policy.
- i) Centlec shall adequately provide in each annual and adjustments budget for the maintenance of its fixed assets and infrastructure. A percentage of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.
- j) The budget for salaries, allowances and salaries-related benefits shall be separately prepared, taking into account the determination by Council of Mungaung Metropolitan Municipality (parent municipality) of the upper limits of the salary, allowances and other benefits of the Chief Executive Officer and senior managers as well as remuneration of board members of the entity.
- k) The entity's budget preparation shall take guide from the National Treasury's guidelines set out in the annual Budget Circulars as well as the indicative numbers and other inputs as set out in the Annual Division of Revenue Act.

- l) Centlec must ensure application and implementation of Standard Chart of Account

### **SECTION 4: RESPONSIBILITY OF BOARD OF DIRECTORS IN TERMS OF MSCOA**

The Board of Directors for entity must take the necessary steps to ensure that Municipal Regulation of Standard Chart of Account are implemented by the adoption of any resolutions, policies, and budgetary provisions necessary for the implementation of these Regulations.

#### **Responsibility of accounting officer**

The accounting officer of entity must take all necessary steps to ensure that these Regulations are implemented by at least-

- (a) Delegating the necessary powers and duties to the appropriate officials;
- (b) Ensuring that the responsible officials have the necessary capacity by providing for training and ensuring that they attend training or workshops provided by National Treasury;
- (c) Ensuring that the financial and business application of the entity have the capacity to accommodate the implementation of these Regulations and that the required modifications or upgrades are implemented ;and
- (d) Submitting reports and recommendations to the municipal council or the board of directors, as the case may be, that provide for the adoption of any resolutions, policies and budgetary provisions necessary for the implementation of these Regulations.

#### **Access by National Treasury**

1. Centlec must ensure that-
  - (a) The business and financial applications used by them incorporate a portal allowing for free to their access to their general ledger for information purposes to any person authorised by the director-General; and
  - (b) Such access is provided.
2. The accounting officer of Centlec must ensure that its system providers cooperate with the National Treasury to implement the necessary programme amendments to provide the standard of access required by the National Treasury.



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3. The National Treasury may use any of the information to which it has access in terms of this regulation for the purposes of –
  - (a) Preparing national accounts for the whole of government;
  - (b) Development of consolidated accounts for the local government sphere;
  - (c) Verifying the correctness of entity financial and business information;
  - (d) Assessment of entity financial performance and benchmarking; and
  - (e) Fulfilling any obligations in terms of legislation.

### **SECTION 5: IMPLEMENTATION REQUIREMENTS FOR MUNICIPAL STANDARD CHART OF ACCOUNT**

1. **The standard chart of account of Centlec:**
  - (a) Must contain the segments in the Schedule as required by Regulation 4(1);
  - (b) Must accurately record all financial transactions and data in the applicable segment; and
  - (c) May not contain data which is mapped or extrapolated or which otherwise does not reflect transactions recorded or measured by Centlec
2. The financial and business application or systems used by Centlec must-
  - (a) Provide for the hosting of general ledger structured in accordance with the classification framework determined in terms of regulation 4(2);
  - (b) Be capable of accommodating and operating the standard chart of accounts;
  - (c) Provide a portal allowing for free access, for information purposes, to the general ledger of the Centlec, by any person authorized by accounting officer of the Centlec.
3. Centlec must have, or have access to, computer hardware with sufficient capacity to run the software which complies with the requirements in sub-regulation 2 above.

### **SECTION 6: BUDGET STEERING COMMITTEE**

The Board of Directors shall establish a budget steering committee which shall be responsible for providing technical assistance to the Board of Directors in discharging its responsibilities as set out in section 87 of Municipal Finance Management Act, no 56 of 2003.

The budget steering committee shall consist of the following persons:

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- the Chairperson of the Finance Committee;
- the Accounting Officer (Chief Executive Officer);
- The Chief Operating Officer;
- the Chief Financial Officer;
- the Manager responsible for budgeting;
- heads of the departments / Senior Managers of the entity; and
- any technical expert on infrastructure.

The Chief Financial Officer, with the assistance of other Senior Managers who are responsible for making inputs for their respective departmental budgets, shall be responsible for the technical preparation of the budget.

### **SECTION 7: THE ANNUAL BUDGET**

The entity's annual budget shall be project based across all the segments in terms of the Municipal Standard Chart of Accounts (mSCOA) regulations, and shall be prepared in the format as prescribed in Regulation 1 of Schedule D of Municipal Budget and Reporting Regulations, 2008. When tabled, the budget shall be accompanied by prescribed supporting documentation<sup>1</sup> and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of Municipal Budget and Reporting Regulations, 2008.

#### **7.1 mSCOA Segments & the Annual Budget**

In line with Chapter 2 of mSCOA Regulations, the budget of the entity shall be prepared in line with the prescribed standard chart of accounts and segments.

Each transaction shall therefore be budgeted against the mSCOA Segments at a posting level from the master data table.

The standard chart of accounts in the budget must accurately record all financial transactions and data in the applicable segment

The following segments shall be applicable for the purpose of budgeting in line with the mSCOA regulations:

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- 1. Funding Segment:** This segment identifies the various sources of funding available for financing expenditure for both capital and operational spending.

The appropriate classification code of a transaction in this segment will be determined according to the source of funding against which a payment is allocated and the source of revenue against which income is received.
- 2. Function Segment:** This segment provide for the classification of the transaction according to the function or service delivery objective and provides for the standardization of function and sub-functions across local government with due regard ro specific service delivery activities and responsibilities of each individual municipal entity. I
- 3. Standard Classification Segment:** this segment provides for the organizational structure and functionality of an individual entity, which is not prescribed, but must incorporate the structure and functionality as determined by the entity.
- 4. Project Segment:** This segment provides for the classification of capital and operating projects as provided for in the integrated development plan, as provided for I the Municipal Structures Act,1998 (Act No.117 of 1998), and funded in the budget and records information on spending as against the budget as well as the utilization of funds provided for the project. The appropriate classification code of a transaction in this segment will be determined on the basis of whether it relates to a specific project and if so, the type of project.
- 5. Regional Identifier Segment:** This segment identifies and assigns government expenditure to the lowest relevant geographical region as prescribed and the appropriate classification code will be determined according to the defined geographic area within which the intended beneficiaries of the service or capital investment are located who are is deriving the benefit from the transaction
- 6. Item Segment:** The Item Segment provides for the classification of item detail in the presentation of the financial position, performance and cash flow of the entity. The appropriation classification code will be determined according to the nature of the transaction either as revenue, expenditure, assets, liability or net asset.
- 7. Costing Segment:** The Costing Segment provides for the classification of indirect (secondary) costs elements and acts as a collector in determining inter alia total cost of a service or function, identification of productivity inefficiencies and tariff determination of municipal services. Classification codes are identified with reference to department charges; internal billing and activity based

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recoveries for purposes of recording specific activities and functions in terms of their unit costs and cost categories.

### **7.2 Capital Projects**

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

The capital projects component of the annual or adjustments budget shall only be approved by the Board of Directors 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.

An item of expenditure shall be regarded as a capital expenditure if it results in an asset being acquired or created and its value exceeds R 1, 000 (excl. VAT) and has a useful life in excess of one year.

The budget for capital projects shall distinguish between replacement and new assets. No globular amounts shall be budgeted for capital project items.

Before approving the capital projects, the Board of Directors shall consider:

- the impact on the present and future operating costs of the entity in relation to finance charges to be incurred on external loans,
- depreciation of the assets,
- maintenance of the assets,
- any other ordinary operational expenses associated with any item on such capital project and
- in addition, the Board of Directors shall consider the likely impact of such operating costs (net of any revenues expected to be generated by such item) on future service tariffs.

### **7.3 Operational Projects**

When considering the budget for operational projects, the Board of Directors shall consider the impact, which the proposed increases in electricity and service tariffs will have on the monthly accounts of consumers. The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.

The operational projects shall reflect the impact of the capital projects on:

- a) depreciation charges;

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- b) repairs and maintenance expenses;
- c) interest payable on external borrowings (*where applicable*); and
- d) Other operating expenses associated with the capital asset.

The Accounting Officer (CEO) shall ensure that the cost of indigence relief (free basic electricity) is separately reflected in the appropriate vote(s).

As part of the operational expenditure, the entity shall budget in each annual and adjustments budget for the contribution to:

- a) provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year;
- b) provision for bad debts and / or debt impairment in accordance with approved Bad Debts Policy;
- c) provision for the obsolescence and deterioration of stock in accordance with approved Supply Chain Management Policy;

### **7.4 Funding of Operating and Capital Expenditure**

The funding of annual budgeted operating expenditure shall be estimated in accordance with the assumptions and methodologies that take into account realistically anticipated revenues to be collected; cash-backed accumulated funds from previous years' surpluses not committed for other purposes and shall be consistent with the trends, current and past, of actual funding collected or received.

The funding of annual budgeted capital expenditure shall be estimated in accordance with the assumptions and methodologies that takes into account realistically anticipated revenues to be collected; cash-backed accumulated funds from previous years' surpluses not committed for other purposes, borrowed funds, realistically anticipated revenues to be received from the national or provincial government, Mangaung Metropolitan Municipality, donors or any other source for which an acceptable documentation which guarantees the funds is available.

Estimated provisions for revenues from electricity sales or other charges that will not be collected shall be budgeted for separately and reflected on the expenditure side of the entity's annual budget and not netted out from budgeted revenue.

The cash flow budget required in terms of Schedule D of Municipal Budget and Reporting Regulations must reflect all funds forecast to be collected, including arrears.

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To determine whether an annual budget is funded and balance in accordance with section 87(5)(a) of the MFMA, a simultaneous analysis is required of the financial performance, financial position, cash flow, and capital expenditure budgets together with any requirements for working capital and cash investments held for statutory or contractual purposes.

The annual budget shall show total capital expenditure and different sources of funding. All different sources of funding shown in the capital expenditure must be available and not committed for other purposes. The capital budget of the entity shall be funded from any or combination of the following sources:

- a) Operating Revenue or Surplus
- b) External loans
- c) Reserves
- d) Grant Funding
- e) Any other available source

### SECTION 8: ANNUAL BUDGET PREPARATION PROCESS

#### 8.1 Formulation of the Budget

The Accounting Officer (CEO) with the assistance of the Chief Financial Officer shall prepare the process plan for the entity's Multi-Year Business Plan (MYBP) and the budget timetable for the entity for the ensuing financial year for submission to the Board of Directors. The entity's MYBP process plan and budget timetable should be submitted to Mangaung Metropolitan Municipality for tabling, together with Mangaung Metropolitan Municipality's Budget timetable to Council 10 months before the start of the next budget year. (*i.e. by 31 August* each year for approval).

The MYBP process plan and budget timetable shall indicate the key deadlines for the review of the MYBP as well as the preparation of the MTREF and the revision of the annual budget. Such target dates shall follow the prescriptions of the Municipal Finance Management Act, Municipal Budget and Reporting Regulations as well as any guidelines set by the National Treasury.

Not later than 150 days before the start of the entity's financial year or earlier if requested by Mangaung Metropolitan Municipality, the Board of Directors must submit a proposed budget for the entity to Mangaung Metropolitan Municipality.

Mangaung Metropolitan Municipality must consider the proposed budget and assess Centlec's priorities and objectives. If Mangaung Metropolitan Municipality makes any recommendations on the proposed budget, the

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Board of Directors of Centlec must consider those recommendations and, if necessary, submit a revised budget to Mangaung Metropolitan Municipality not later than 100 days before the start of the financial year.

The Executive Mayor of the Mangaung Metropolitan Municipality must table the proposed budget of the entity in the Council when the annual budget of the Mangaung Metropolitan Municipality for the relevant year is tabled.

Electricity tariffs should be approved by the entity in terms of NERSA guidelines so that they do not disrupt the compilation of the budget regarding revenue.

The entity must also take into account the multi-year Salary and Wage Collective Agreement for increases relating to salaries.

### **8.2 Submission and Tabling of Draft Annual Budget**

The Accounting Officer (CEO) is responsible for ensuring that an annual budget and supporting documentation submitted to the council of Mangaung Metropolitan Municipality and the Board of Directors shall be in a prescribed format in terms of Municipal Budgeting and Reporting Regulations, 2008 and be credible and realistic such that it is capable of being approved and implemented as tabled.

### **8.3 Consideration and Approval of the Annual Budget**

The Board of Directors of Centlec must consider the full implications, financial and otherwise, of an annual budget and supporting documentation and keeping in mind that the consistency in bases of measurement and accounting policies are taken into account, before approving an annual budget.

When approving an annual budget, the Board of Directors must consider and adopt resolutions dealing with at least the following matters; which must be prepared and presented as part of Centlec's annual budget documentation:

- approval of the annual budget of Centlec;
- approval of tariffs for services provided by Centlec;
- approval of any amendments to Centlec's multi-year business plan;
- approval of measurable performance objectives for the annual budget for each year of the medium term revenue and expenditure framework; and
- approval of all budget-related policies or amendments to such policies.

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The Board of Directors must approve the budget of the entity not later than 30 days before the start of the financial year, taking into account any hearings or recommendations of the council of the Mangaung Metropolitan Municipality. The entity must ensure that its tabled budgets reflect equitable share and conditional grants allocations to be received through the parent municipality for each financial year.

### **8.4 Submission of Approved Annual Budgets**

Immediately after the Board of Directors of Centlec has approved the entity's annual budget, the Accounting Officer (CEO) must submit the approved annual budget and supporting documentation to the Accounting Officer (Municipal Manager) of Mangaung Metropolitan Municipality in both printed and electronic form.

When submitting a budget the Accounting officer should provide a signed certificate certifying that:

- a) The adopted annual budget has been captured on the entity's financial system, and that there is complete agreement between the budget on the system and the budget approved by the Board of Directors and adopted by council;
- b) That the approved and adopted annual budget on the entity's financial system is locked; and
- c) That the entity has in place controls to ensure that the budget captured on the financial system can only be changed in accordance with: a virement authorised by the Accounting Officer, or duly delegate official, in terms of the board approved Virements Policy; and an Adjustments Budget approved by the Board.

### **8.5 Publication of Approved Annual Budget**

Within 10 working days after the Board of Directors has approved the annual budget, the Accounting Officer (CEO) or duly delegated official shall, in accordance with section 21A of Municipal Systems Act, publicize the approved annual budget and supporting documentation and the resolutions passed by the board in relation to the annual budget.

### **8.6 Service Delivery and Budget Implementation Plan (SDBIP)**

The Board of Directors shall approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the annual budget. The SDBIP shall include the following particulars as a minimum:

- Monthly projections of revenue to be collected for each source;



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- Monthly projections of expenditure (operating and capital) and revenue for each department;
- Quarterly projections of service delivery targets and performance indicators for each department;
- Ward information for expenditure and service delivery; and
- Detailed capital works plan broken down by ward over three years.

The Accounting Officer (CEO) or duly delegated official shall make the SDBIP public in terms of section 21A of Municipal Systems Act within 10 days after approval by the Board of Directors.

### **SECTION9: APPROVAL OF CAPITAL PROJECTS**

Before approving a capital project, the Board of Directors shall consider the following:

- 1) the projected cost of the project over all the ensuing financial years until the project becomes operational; and
- 2) future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. on electricity and services tariffs).

The following capital projects may be approved by the Board of Directors either individually or as part of consolidated capital projects:

1. *Capital projects of which the total projected cost is below 5% of entity's budgeted revenue, in the case of the entity's approved total revenue in terms of the annual budget does not exceed R 250 million.*
2. *Capital projects of which the total projected cost is below 8% of entity's budgeted revenue, in the case of the entity's approved total revenue in terms of the annual budget is greater than R 250 million but not exceeding R 500 million.*
3. *Capital projects of which the total projected cost is below R 50 million, in the case of the entity's approved total revenue in terms of the annual budget is greater than R 500 million.*

Expenditure needed for capital projects below the values set out above, shall be included in the annual budget before the project is approved in terms of Section 19(3) of MFMA.

For the capital projects approved as set out above, the Accounting Officer must, within ten days after the Board of Directors has given individual approval for a capital project, and in terms of Section 21A of Municipal

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Systems Act, make public the board's resolution approving the capital project and the nature, location and the total projected cost.

### **SECTION 10: UNSPENT FUNDS / ROLL OVER OF BUDGET**

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 funds relating to multi-year capital projects.

### **SECTION 11: ADJUSTMENTS BUDGET**

The Board of Directors of the entity may, with the approval of the Executive Mayor of Mangaung Metropolitan Municipality, revise the budget of the entity, but only for the following reasons:

- a) To adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
- b) to authorise expenditure of any additional allocations to the entity from Mangaung Metropolitan Municipality;
- c) to authorise, within a prescribed framework, any unforeseeable and unavoidable expenditure approved by the Executive Mayor of the Mangaung Metropolitan Municipality;
- d) to authorise any other expenditure within a prescribed framework.

Any projected allocation to the entity from Mangaung Metropolitan Municipality must be provided for in the annual budget of Mangaung Metropolitan Municipality, and to the extent not so provided, the entity's budget must be adjusted.

An adjustments budget shall be tabled to the Board of Directors any time after mid-year budget and performance assessment has been tabled to the Board of Directors, but not later than 20 February of that financial year.

The Accounting Officer (CEO) or duly delegate official shall ensure that the adjustment budgets and supporting documentation comply with Schedule E of Municipal Budget and Reporting Regulations, 2008.

Any un-appropriated surplus from previous financial years, even if fully cash backed, shall not be used to balance any adjustments budget, but shall be appropriated to the entity's Capital Replacement Reserve.

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Tariffs shall not be increased during a financial year except if required in terms of a financial recovery plan. All unauthorised expenses shall be considered and authorised in an adjustments budget.

### **SECTION 12: TABLING, APPROVAL, SUBMISSION AND PUBLICATION OF ADJUSTMENT BUDGET**

The policy guidelines on tabling, consideration and approval, publication and submission of the annual budget in terms of this policy shall also apply to adjustment budgets.

### **SECTION 13: BUDGET IMPLEMENTATION**

The Accounting Officer (CEO) is responsible for implementing the entity's budget, including taking effective and appropriate steps to ensure that:

- a) funds are spent in accordance with the budget;
- b) expenses are reduced if expected revenues are less than projected; and
- c) revenue and expenses are properly monitored.

The Accounting Officer (CEO) must report in writing to the Board of Directors any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify future occurrence thereof. Expenses shall only be incurred in terms of the approved annual budget or adjustments budget and within the limits of the amounts appropriated for each department in the approved budget.

### **SECTION 14: REPORTING**

#### **14.1 Monthly Reports (Budget Statements)**

The Accounting Officer (CEO) or duly delegated official must by no later than (7) seven working days after the end of each month submit to the Accounting Officer of Mangaung Metropolitan Municipality a statement in the prescribed format on the state of Centlec's budget reflecting the following particulars for that month and for the financial year up to the end of that month:

- a) Actual revenue, per revenue source;
- b) Actual borrowings;
- c) Actual operating expenditure;
- d) Actual capital expenditure;

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- e) The amount of any allocations received;
- f) Actual expenditure on those allocations, excluding expenditure on allocations exempted by the annual Division of Revenue Act from compliance with this paragraph; and
- g) When necessary, an explanation of:
  - i. Any material variances from Centlec's projected revenue by source, and from Centlec's expenditure projections;
  - ii. Any material variances from the service delivery agreement and the business plan; and
  - iii. Any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within Centlec's approved budget.

The statement must include a projection of revenue and expenditure for the rest of the financial year, and any revisions from initial projections.

The amounts reflected in the statement must in each case be compared with the corresponding amounts budgeted for in entity's approved budget.

The statement to the Accounting Officer of Mangaung Metropolitan Municipality must be in the format of a signed document and in electronic format.

If a grant transfer is withheld or stopped by the parent municipality, the entity must provide reasons why a grant transfer was stopped or withheld in its monthly and quarterly expenditure reporting.

The Accounting Officer (CEO) is responsible for, among other things, the tabling of monthly reports to the Board of Directors on whether or not the entity is complying with the Division of Revenue Act. CEO is also responsible for reporting on any delays in the transfer or the withholding of funds.

Where the entity is unable to comply, or requires an extension, the Accounting Officer must apply to the National Treasury and provide comprehensive motivation for the non-compliance.

### **14.2 Mid-year Budget and Performance Assessment Report**

As per Section 88 of MFMA 56 of 2003, the Accounting Officer of the entity must by 20 January of each year assess the performance of the entity during the first half of the financial year, taking into account:

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- a) the monthly statements, referred to in section 87 of the MFMA, for the first half of the financial year and the targets set in the service delivery, business plan or other agreement with Mangaung Metropolitan Municipality; and
- b) Centlec's annual report for the past year, and progress on resolving problems identified in the annual report; and
- c) Submit a report on such assessment to:
  - i. The Board of Directors of Centlec; and
  - ii. Mangaung Metropolitan Municipality.

The mid-year budget and performance assessment report must be made public in terms of section 21A of Municipal Systems Act, 2000.

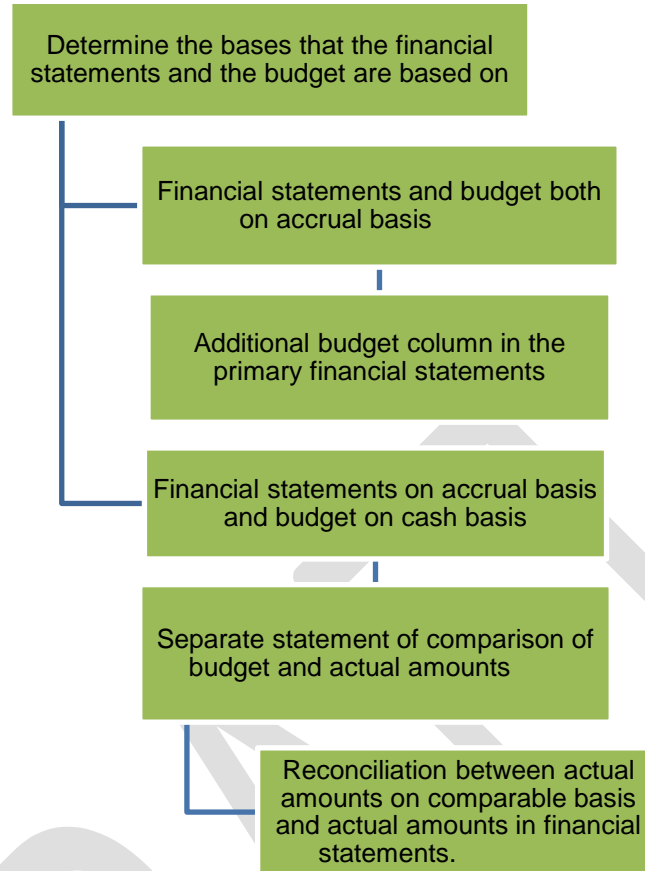
A mid-year budget and performance assessment of Centlec must be in the format specified in Schedule F of Municipal Budget and Reporting Regulations, 2008 and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of MFMA.

### **14.3 Annual Reporting**

The entity should present its original and adjusted budgets against the actual outcome in the annual financial statements and should ensure that the budget document is supported by clear and concise narratives explaining the budget.

#### **14.3.1 Presentations and Disclosure:**

Decision Tree on presentation and disclosure of budget information:



### 14.3.2 Level of Aggregation:

The detailed financial information included in approved budgets may need to be aggregated in some cases for presentation in financial statements in accordance with the requirements of GRAP 24. Such aggregation may be necessary to avoid disclosing unnecessary information and to reflect relevant levels of oversight by Board of Directors and Council. Determining the level of aggregation will involve professional judgment that must be applied in the context of the objective of GRAP 24 and the qualitative characteristics of financial reporting to ensure that the information presented is relevant and reliable.

### 14.3.3 Changes from Approved to Final Budget:

When the final budget differs from the approved budget, an explanation must be presented of whether these changes are the result of reallocation within the budget, or of other factors. The explanation can be disclosed as a note in the financial statements, or in a separate document issued prior to, at the same time as, or in conjunction with financial statements and referenced to the notes in the financial statements.

### 14.3.4 Comparable Basis:

The comparison of budget and actual amounts should be presented on a comparable basis to the budget, and therefore reference it should be on the same basis of accounting (accrual, cash or other basis); use the same classification system (expenses by nature or function); include the same activities and the same entities (reporting entity and other entities included) and be prepared for the same period as the final budget.

In terms of GRAP 24 the entity should make its budget publicly available to present a comparison in their financial statements between:

- last approved and final budget amounts (which includes changes made by management within the prescribed limits);
- budget and actual amounts on a comparable basis; and
- explanations of material differences between budget and actual amounts, except where explanations have been included in other documents published in conjunction with the financial statements and cross reference to these documents is made.

Where the entity has approved multi-year budgets, the entity should provide an additional note about the relationship between budget and actual amounts during the budget period.

Where the financial statements and the budget are not prepared on a comparable basis (i.e. where the financial statements are on the accrual basis and budget on the cash basis), the actual amounts presented on a comparable basis to the budget should be reconciled to the following actual amounts presented in the financial statements identifying separately any basis, timing and entity differences:

- if an accrual basis is adopted for the budget, the total revenue, total expenses and net cash flows from operating activities, investing activities and financing activities to the actual amounts on the financial statements; or
- if a basis other than the accrual basis is adopted for the budget, the net cash flows from operating activities, investing activities and financing activities.

The reconciliation can be disclosed on the face of the statement of comparison of budget and actual amounts or the notes to the financial statements.

### 14.3.5 Conditional Grants that are Rolled Over:

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The entity may spend unspent conditional grants that have been rolled over as being committed to identifiable projects once it receives written approval in this regard from the Parent Municipality.

As soon as the entity is given permission to retain unspent conditional grants funds it must include such funds in the adjustment budget within 60 days after the roll over is approved.

## **SECTION 15: QUALITY CERTIFICATION**

Whenever an annual budget and supporting documentation, adjustment budget and supporting documentation or an in-year report is submitted to Mangaung Metropolitan Municipality, tabled in the meeting of Board of Directors, made public or submitted to another organ of state, it must be accompanied by a **QUALITY CERTIFICATE** complying with Schedule D, E and F of the Municipal Budget and Reporting Regulations, 2008 and signed by the Accounting Officer (CEO).

The CEO in signing the Quality Certificate, certifies that all consumers are accounted for in the annual budget calculations and that billing systems including property records and metering information are up to date and consistent with revenue projections in the annual budget.

## **SECTION 16: REVIEW AND APPROVAL**

This policy and underlying strategies will be reviewed at least annually, or as necessary, to ensure its continued application and relevance.

Approved by the Board of Directors on \_\_\_\_\_:

Signed: \_\_\_\_\_

Chairperson of the Board

Date: \_\_\_\_\_