



CITY OF CAPE TOWN  
ISIXEKO SASEKAPA  
STAD KAAPSTAD

## **ANNEXURE 15**

# **DRAFT POLICY GOVERNING ADJUSTMENTS BUDGETS**



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# ADJUSTMENT BUDGET POLICY

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## 1. DEFINITIONS AND ABBREVIATIONS

### Abbreviations

**“MFMA”** means the Local Government Municipal Finance Management Act No 56 of 2003;

**"MSA"** means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

**“MBRR”** Municipal Budget and Reporting Regulations;

**“SDBIP”** means Service Delivery and Budget Implementation Plan;

### Definitions

**"Accounting Officer"- (MFMA)**

- (a) in relation to a municipality, means the municipal official referred to in section 60; or
- (b) in relation to a municipal entity, means the official of the entity referred to in section 93,

and includes a person acting as the accounting officer;

**"Approved Budget”** means an annual budget -

- (a) approved by a municipal council; or
- (b) approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution,

and includes such an annual budget as revised by an adjustments budget in terms of section 28;

**"Budget transfer"** means transfer of funding within a function / vote.

**"Budget Year"- (MFMA)**

means the financial year of the municipality for which an annual budget is to be approved in terms of section 16(1);

**“Chief Financial Officer” – (MFMA)**

means a person designated in terms of section 80(2)(a) of the

MFMA;

**"Current year" – (MFMA)**

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

**"Financial year – (MFMA)**

means a year ending on 30 June;

**"Municipal Council" or "council" – (MFMA)**

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

**"Municipality" –(MFMA)**

- (a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or;
- (b) when referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998).

**"Service Delivery and Budget Implementation Plan" – (MFMA)**

means a detailed plan approved by the executive mayor of a municipality in terms of section 53(l)(c)(ii) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate -

- (a) projections for each month of—
    - (i) revenue to be collected, by source; and
    - (ii) operational and capital expenditure, by vote;
  - (b) service delivery targets and performance indicators for each quarter; and
  - (c) any other matters that may be prescribed
- and includes any revisions of such plan by the mayor in terms of section 54(1)(c)

**"unauthorised expenditure" –(MFMA)**

in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes—

- (a) overspending of the total amount appropriated in the municipality's approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the municipality otherwise than in accordance with this Act;

## **2. PROBLEM STATEMENT**

Changes in a budget are a necessity as there are various internal and external factors impacting on the financial performance and implementation of the budget during the financial year.

### **DESIRED OUTCOME**

The implementation of the Local Government: Municipal Finance Management Act, (Act No.56 of 2003) (MFMA), initiated municipal financial reforms. The key aims of the MFMA are to modernise budget, accounting and financial management practices. It further aims to provide strategic guidance in the financial planning of the Municipality. Section 28 of the MFMA states that, "a municipality may revise an approved annual budget through an adjustments budget".

As part of the municipal financial reforms the Municipal Budget Reporting Regulations (MBRR) was gazetted in 2009. The main objective of the MBRR is to formalise norms and standards to improve the credibility, sustainability, transparency, accuracy and reliability of municipal budgets. It further ensures that the process on amendments of approved budgets is done appropriately.

This policy must be read, analysed, interpreted, implemented and understood against this legislative background.

### 3. STRATEGIC FOCUS AREAS

The **five** strategic focus areas provide a solid foundation for service delivery. The strategic focus areas are the opportunity city, the safe city, the caring city and the well-run city.

The City has also identified **11 priorities** that span the five strategic focus areas. By elevating these 11 priorities, it is expected that the strategic focus area outcomes will be accelerated.

This policy supports the following strategic focus area:

**Well-run City:** This objective is about delivering services and creating value for customers in an operationally sustainable manner based on evidenced led decision making so that the City can remain financially stable and resilient to shocks in a changing environment.

**Objective 5.1: Operational sustainability.**

### 4. ROLE PLAYERS AND STAKEHOLDERS

In order to give effect to the policy, the following role players including their respective powers, duties and responsibilities are listed below:

#### 4.1 Budget Department

- (a) be responsible for overall administrative and technical oversight in terms of the compilation of the Adjustment Budget;

#### 4.2 Directorates and Departments

- (a) required to inform Budget Department of changes in the approved budget;
- (b) responsible for providing information to Budget Department regarding any proposed amendments;
- (c) required to make recommendations including detailed motivations on changes for the Adjustment Budget

#### 4.3 Council

- 4.3.1 Be responsible for the approval of the Adjustment Budget

### 5. REGULATORY CONTEXT

5.1 Section 12 of the MFMA, **Relief, charitable, trust or other funds**, states that:

- (1) *No political structure or office-bearer of a municipality may set up a relief, charitable, trust or other fund of whatever description except in the name of the municipality. Only the*

*municipal manager may be the accounting officer of any such fund.*

- (2) *A municipality may in terms of section 7 open a separate bank account in the name of the municipality for the purpose of a relief, charitable, trust or other fund.*
- (3) *Money received by the municipality for the purpose of a relief, charitable, trust or other fund must be paid into a bank account of the municipality, or if a separate bank account has been opened in terms of subsection (2), into that account.*
- (4) *Money in a separate account opened in terms of subsection (2) may be withdrawn from the account without appropriation in terms of an approved budget, but only—*
  - (i) *by or on the written authority of the accounting officer acting in accordance with decisions of the municipal council; and*
  - (ii) *for the purposes for which, and subject to any conditions on which, the fund was established or the money in the fund was donated.*

5.2 Section 22 of the MFMA, **Publication of annual budgets**, states that:

*Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must -*

- (a) *in accordance with Chapter 4 of the Municipal Systems Act -*
  - (i) *make public the annual budget and the documents referred to in section 17 (3); and*
  - (ii) *invite the local community to submit representations in connection with the budget; and*
- (b) *submit the annual budget -*
  - (i) *in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and*
  - (ii) *in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.*



5.3 Section 28 of the MFMA, **Municipal Adjustment Budgets**, states that:

(a) *A municipality may revise an approved annual budget through an adjustments budget.*

(b) *An adjustments budget -*

(i) *must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;*

(iii) *may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;*

(iv) *may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;*

(v) *may authorise the utilisation of projected savings in one vote towards spending under another vote;*

(vi) *may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;*

(vii) *may correct any errors in the annual budget; and-*

(viii) *may provide for any other expenditure within a prescribed framework.*

(c) *An adjustments budget must be in a prescribed form.*

(d) *Only the mayor may table an adjustments budget in the municipal council, but an adjustments budget in terms of subsection (2) (b) to (g) may only be tabled*

*within any prescribed limitations as to timing or frequency.*

- *When an adjustments budget is tabled, it must be accompanied by -*

- *an explanation how the adjustments budget affects the annual budget;*

- *a motivation of any material changes to*

- the annual budget;*
- *an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and*
- *any other supporting documentation that may be prescribed.*
- *Municipal tax and tariffs may not be increased during a financial year.*
- *Sections 22(b), 23(3) and 24(3) apply in respect of an adjustments budget, and in such application a reference in those sections to an annual budget must be read as a reference to an adjustments budget.*

5.4 Section 29 of the MFMA, **Unforeseen and unavoidable expenditure**, states that:

- (1) *The mayor of a municipality may in emergency or other exceptional circumstances authorise unforeseeable and unavoidable expenditure for which no provision was made in an approved budget.*
- (2) *Any such expenditure -*
  1. *must be in accordance with any framework that may be prescribed;*
  2. *may not exceed a prescribed percentage of the approved annual budget;*
  3. *must be reported by the mayor to the municipal council at its next meeting; and*
  4. *must be appropriated in an adjustments budget.*
- (3) *If such adjustments budget is not passed within 60 days after the expenditure was incurred, the expenditure is unauthorised and section 32 applies.*

5.5 Section 69 (1) and (2) of the MFMA, **Budget implementation**, states that:

- i. *The accounting officer of a municipality is responsible for implementing the municipality's approved budget, including*

*taking all reasonable steps to ensure -*

- ii. *When necessary, the accounting officer must prepare an adjustments budget and submit it to the mayor for consideration and tabling in the municipal council.*

5.6 Section 72 of the MFMA, **Mid-year budget and performance assessment**, states that:

*The accounting officer of a municipality must by 25 January of each year -*

1. *assess the performance of the municipality during the first half of the financial year, taking into account -*
  - a. *the monthly statements referred to in section 71 for the first half of the financial year;*
  - b. *the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan;*
  - c. *the past year's annual report, and progress on resolving problems identified in the annual report; and*
  - d. *the performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities; and*
2. *submit a report on such assessment to -*
  - a. *the mayor of the municipality;*
  - b. *the National Treasury; and*
  - c. *the relevant provincial treasury.*
3. *The statement referred to in section 71 (1) for the sixth month of a financial year may be incorporated into the report referred to in subsection (1) (b) of this section.*
4. *The accounting officer must, as part of the review -*

- (a) *Make recommendations as to whether an adjustments budget is necessary; and*
- (b) *Recommend revised projections for revenue and expenditure to the extent that this may be necessary.*

5.7 Section 21A of the MSA, **Documents to be made public**, states that:

- (1) *All documents that must be made public by a municipality in terms of a requirement of this Act, the Municipal Finance Management Act or other applicable legislation, must be conveyed to the local community -*
  - (a) *by displaying the documents at the municipality's head and satellite offices and libraries;*
  - (b) *by displaying the documents on the municipality's official website, if the municipality has a website as envisaged by section 21B; and*
  - (c) *by notifying the local community, in accordance with section 21, of the place, including the website address, where detailed particulars concerning the documents can be obtained.*
- (2) *If appropriate, any notification in terms of subsection (1) must invite the local community to submit written comments or representations to the municipality in respect of the relevant documents.*

## 6. OBJECTIVE

The objective of the adjustment budget policy is to set out:

- 6.1 Conditions for an adjustment budget; and
- 6.2 Compliance and procedures for an adjustment budget.

## 7. CONDITIONS

Regulation 7 of the MBRR lists the budget related policies and regulations relating to municipalities and municipal entities.

Part 4 of the MBRR specifically aims to guide the adjustment budget process for municipalities. Conditions for an adjustment budget are listed below.

- 7.1** Must adjust the revenue and expenditure estimates downwards if there is material under-collection<sup>2</sup> of revenue during the current year; in terms of MFMA section (28) (2)(a)

May appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for. If a national or provincial adjustment budget allocates or transfers additional revenues to the municipality, the mayor of the municipality must, at the next available council meeting, but within 60 days of the approval of the relevant national or provincial adjustments budget, table an adjustments budget referred to in section 28(2)(b) of the Act in the municipal council to appropriate these additional revenues.

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<sup>2</sup> Any variance that affects either strategic, operational and technical service delivery sustainability is viewed as material. Consideration of the need to adjust these estimations of budgetary provisions should also take the stage of the financial period, or time remaining in the financial period for further monitoring and/or remedial action, into account.

**7.2 Unforeseeable and unavoidable expenditure**

An adjustments budget referred to in section 28(2)(c) of the MFMA must be tabled in the municipal council at the first available opportunity after the unforeseeable and unavoidable expenditure contemplated in that section was incurred, but within 60 days after the Unforeseeable and unavoidable expenditure was incurred, as per Section 29 (3) of the MFMA. Refer to Unforeseeable and Unavoidable Expenditure Policy

**7.3 Utilisation of projected savings in one vote towards spending under another vote**

This condition can be met any time after the Mid-year performance assessment but before 28 February, as indicated in Regulation 23(1).

**7.4 Approval of roll-overs**

- (a) An adjustment budget referred to in section 28(2)(e) of the Act may only be tabled after the end of the financial

year to which the roll-overs relate, and must be approved by the municipal council by 25 August of the financial year following the financial year.

- (b) Unconditional grants, agency agreement funding and National Treasury Supplemental grants which are unspent portions from the previous financial year, can be roll-over as part of the adjustments budget process in August.
- (c) The following matters are to be addressed in formulating proposals for Capital roll-over funding allocations:
  - i. Those contractual components let or works awarded or commenced with in the financial year, but not yet implemented and settled by the end of that financial year – in other words the monetary value of commitments – and for which no budgetary provision was made on the Capital Budget – will be considered for roll-over budgetary provision.
  - ii. in terms of the “unforeseen” definition and interpretation of the relevant MFMA stipulations, departments must have had a reasonable expectation that the works would have been completed by end of the financial year.
  - iii. the “anticipated expenditure to financial year-end” are to be used as starting point in calculating the roll-over requirement – it is presumed that the additional roll-over provisions on the next financial year Capital Budget will not increase the total budget cost of individual projects;
  - iv. proposals for roll-over provisions should cater for both internally- and externally funded budgetary provisions;
  - v. reasons explaining why budgetary provisions were committed, not spent by end of the financial year are to be provided.
  - vi. reasons for the non-provision of the roll-over requirement on the next financial year budget is also required.

**7.5 May correct any errors in the annual budget;**

Any time after the mid-year performance assessment but before 28 February.

**7.6 Un-authorised expenditure**

Section 32(2)(a)(i) of the MFMA requires an adjustments budget in the case of unauthorised expenditure. MBRR regulation 23(6) states that:

An adjustments budget contemplated in section 28(2)(g) of the Act may authorise unauthorised expenditure as anticipated by section 32(2)(a)(i) of the Act, and must be-

- (a) dealt with as part of the adjustments budget contemplated in sub regulation (1); and
- (b) a special adjustments budget tabled in the municipal council when the mayor tables the annual report in terms of section 127(2) of the Act, which may only deal with unauthorised expenditure from the previous financial year which the council is being requested to authorise in terms of section 32(2)(a)(i) of the Act.

**7.7 Mid-year review followed by adjustment budget**

A mid-year review by the Accounting Officer in accordance with the MFMA is due for completion by 25 January, which may lead Council to take corrective steps with regards to deviations in revenue and expenditure of the approved budget.

Utilising the monthly financial results, the SDBIP results, the past year's annual report and the performance of the municipality, Section 72 (3)(a) of the MFMA also states the accounting officer must, as part of the review make recommendations as to whether an adjustments budget is necessary.

An adjustment budget is generally recommended stemming from the Mid-year review. This adjustments budget is submitted to Council for approval by no later than 28 February as allowed in the MFMA.

There are circumstances in a financial year where an adjustment budget can or must be approved by Council that do not coincide with the mid-year review, and this will lead to a

municipality having to adjust the Council approved budget more than once.

### 7.8 Summary of prescribed Adjustment Budget dates

<p><u>July – June</u></p> <p><input type="checkbox"/> Must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year</p> <p><input type="checkbox"/> Within 60 days after the Unforeseeable and unavoidable expenditure was incurred</p>	July	<input type="checkbox"/> Start Financial Year
	August	<input type="checkbox"/> Roll Overs of the previous financial year by 25th (plus Minor Adjustments within Virement Policy is
	September	<input type="checkbox"/>
	October	<input type="checkbox"/>
	November	<input type="checkbox"/>
	December	<input type="checkbox"/>
	January	<input type="checkbox"/> Mid-Year Review by 25 <sup>th</sup> (mid-year and adjustment budget same date)
	February	<input type="checkbox"/> Adjustment by 28 <sup>th</sup> (Corrective steps stemming from Mid-year review,
	March	<input type="checkbox"/>
	April	<input type="checkbox"/>
	May	<input type="checkbox"/>
	June	<input type="checkbox"/> End of the Financial Year

## 8 COMPLIANCE AND PROCEDURES

When an adjustments budget is tabled, it must be accompanied by -

- (a) an explanation how the adjustments budget affects the annual budget;
- (b) a motivation of any material changes to the annual budget;
- (c) an explanation of the impact of any increased spending on the annual budget;
- (d) the annual budgets for the next two



- financial years; and
- (e) any other supporting documentation that may be prescribed.

### **8.1 Formats of adjustments budgets**

An adjustment budget and supporting documentation of a municipality must be in the format specified in Schedule B of the MBRR and include all the required tables, charts and explanatory information, taking into account any guidelines issued by National Treasury.

### **8.2 Funding of adjustment budgets**

An adjustments budget of a municipality must be suitably funded. The supportive documentation to accompany an adjustments budget in terms of section 28(5) of the MFMA must contain an explanation of how the adjustments budget is funded.

### **8.3 Submission of tabled adjustments budgets**

The municipal manager must comply with section 28(7) of the MFMA together with section 22(b)(i) of the MFMA, within ten working days after mayor has tabled an adjustments budget in the municipal council. When submitting the tabled adjustments budget to National Treasury and relevant provincial treasury in terms of section 28(7) of the MFMA, municipal manager must submit it in both printed and electronic form, as prescribed by National Treasury.

### **8.4 Approval of adjustments budgets**

The municipal council must consider the full consequences, fiscal or otherwise, of the adjustments budget and supporting documentation. When approving an adjustments budget, municipal council must consider and adopt separate resolutions dealing with each of the matters listed below:

- (a) Approval of the adjustment budget;
- (b) Approval of any adjustments permitted in terms of section 28(2) of the MFMA;
- (c) Approval of the transfer of funds to a separate bank account for purpose contemplated in section 12 of the

MFMA;

- (d) Approval of revisions to the monthly and quarterly service delivery targets and performance indicators in the service delivery and budget implementation plan, if any, to correspond with the approval of the adjustments budget;
- (e) Approval of any amendments to budget related policies necessitated by the adjustments budget.

## **8.5 Quality Certification**

When an adjustment budget and supporting documentation is tabled in council, made public or submitted to another organ of state, it must be accompanied by a quality certificate complying with Schedule B and signed by the municipal manager.

## **8.6 Publication of approved adjustment budgets**

Within ten working days after the municipal council has approved an adjustments budget, the municipal manager must in agreement with section 21(A) of the Municipal System Act make public that approved adjustments budget and supporting documentation, as well as the resolution referred to in item 4, Schedule B, resolutions.

# **9. IMPLEMENTATION, EVALUATION AND REVIEW**

This policy framework is important for the financial compliance of the City. It provides for an all-inclusive administrative procedure for the management of an Adjustments Budget.

This policy shall be implemented once approved by Council.

Directorates to ensure that during implementation stages that there is consistent monitoring & evaluation of the policy as indicators will inform blockages within the policy implementation phases.

In terms of section 17(3)(e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.

Changes in legislation must be taken into account for future amendments to this policy.

Any amendments to this policy must be re-submitted to council for review and approval.