



## Definition of “Vote” in MFMA

### Introduction

This circular serves to provide guidance on concepts emerging from the Municipal Finance Management Act. Municipalities have sought clarity in interpreting the concept of a “vote”. The “vote” in a municipal context provides, at the highest level of the administration, a budget structure for appropriate service delivery and performance. Appropriations and subsequent reporting by “vote” will allow for effective administration, policy setting and service delivery performance measurement. The structure of a “vote” is key to the development and preparation of other processes and priority setting that enhance consultation, budgeting, service delivery implementation (as outlined in the SDBIP), monthly, quarterly and annual reports (end-of-year reporting), and determining matters that relate to unauthorised expenditure.

The definition of a “vote” as contained in section 1 of the Municipal Finance Management Act (MFMA) provides the initial point of reference. This also supports other circulars that are dependent on a better understanding of a “vote”, like Circular No. 13 on the SDBIP.

### MFMA Definition

Section 1 of the MFMA defines a “**vote**” as:

- a) *one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and*
- b) *which specifies the total amount that is appropriated for the purposes of the department or functional area concerned*

The term “vote” is used to divide the budget into segments and the council then approves the budget according to these votes via resolution. The definition requires votes to be at the departmental or functional level. The reason for this is that municipalities are organised around departments, which in most instances tend to be linked to specific functions. Senior managers often head such departments/functions, which makes it easier for the “vote” of a department to be used to facilitate greater accountability for service delivery and budget implementation over the performance of senior managers, in accordance with their annual performance agreements. For effective accountability, senior managers form part of top management and report directly to the municipal manager (section 77 of the MFMA).

Apart from facilitating accountability of senior managers, the vote also allows for three key comparisons between municipal budgets, namely:

1. comparisons of a municipality’s budget from one year to the next (even if the municipality re-organises its departments or shifts functions between departments);
2. comparisons between the budgets of different municipalities and for consolidated reporting;
3. international comparisons between municipalities in South Africa and other countries.

Such comparisons are only possible if there are consistent definitions for votes, departments and functions.

### **Definition of “Vote” in terms of departments or functions**

The first point to note is that the department needs to be defined in terms of one or more broad functions (eg electricity, water and sanitation, etc). To facilitate comparisons, functions in government must be related to an international classification system like the Government Finance Statistics (GFS) system. GFS functions provide a reasonably high level grouping of related service delivery activities for local government, and it is important that whatever organisational structure a municipality has, it can relate them to GFS sub-functions to the extent this is possible. A list of the GFS functions and sub-functions is included in diagram 2 on page 4 of this circular. More information on GFS functions, related sub-functions and activities comprising each sub-function are available on the NT website [mfma@treasury.gov.za/mfma](mailto:mfma@treasury.gov.za/mfma) located under MFMA Circular No 12.

The second important point to note is the municipal strategic goals as articulated in the municipal IDP should also be linked to the GFS system, which will ensure that managers are aware of how their organisation, budget and plans are all linked to the IDP of the municipality. The SDBIP circular No. 13 provides an example of linking the “votes” to IDP goals.

The structure of a vote should not require re-organisation or restructuring of a municipality, as long as a municipality largely defines its departments around key functions or sub-functions. Departments may also perform cross-functional activities (eg a centralised revenue collection department may collect revenue for functions of electricity, water, refuse removal, etc.), whilst other departments may be responsible for the distribution of electricity and water. In another example (refer to diagram 3), besides the main tasks of the Dept of Roads it also is responsible for, street lighting, rather than the Dept of Electricity. In this case, the electricity GFS function and the vote is divided between two different departments as the department of roads will have two votes – one for roads, and one for electricity (sub-function street-lighting). This example illustrates that the voting approach is flexible and can be adjusted to accommodate any organisational structure. Such flexibility will be possible as long as each “vote” or department is broken down for reporting into GFS functions (or sub-functions and sub-sub functions), according to the organisation structure and management requirements of the municipality.

### **High Level “Votes”**

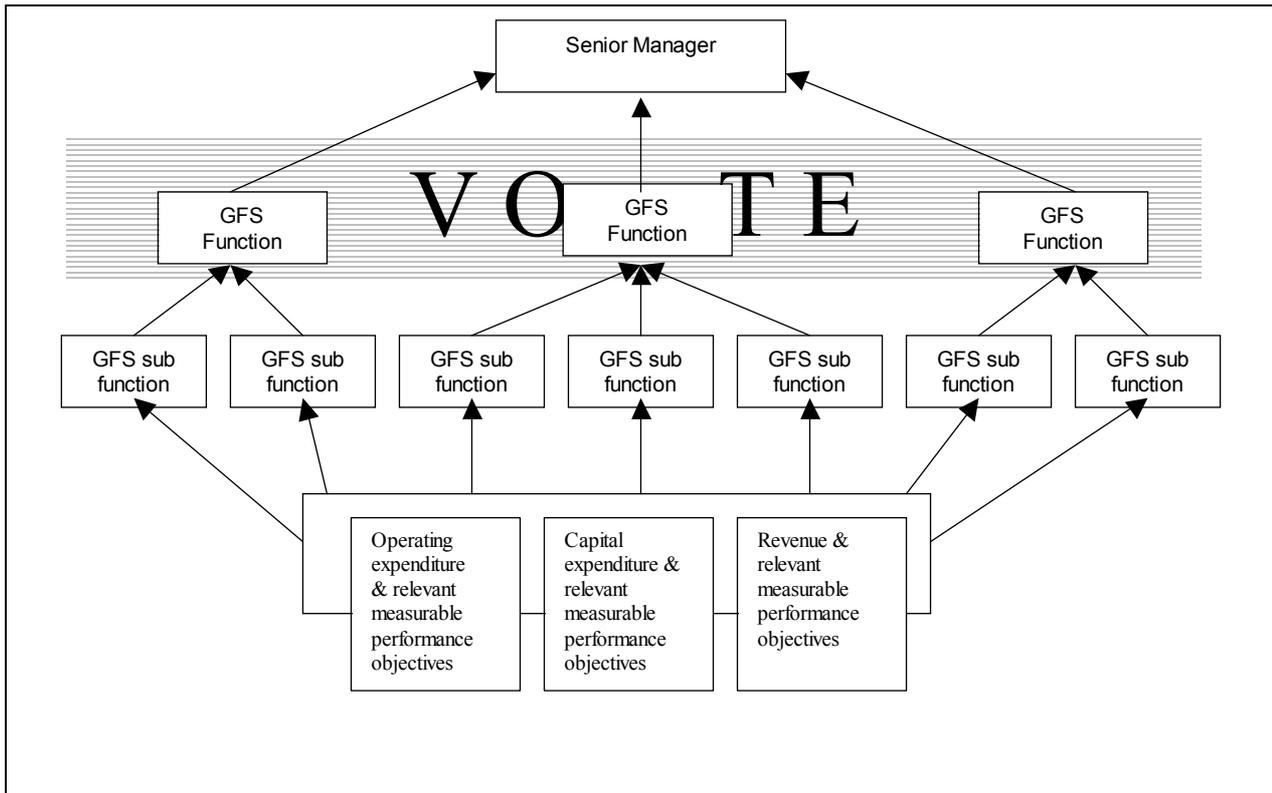
The Budget is the mechanism to execute the strategic plan, and must not be confused with a management plan. It must provide high-level strategic objectives for both councillors and the community, and shift the focus towards outputs and outcomes. Previous municipal budget formats have been at the level of very detailed line item allocations, focusing only on inputs, and hence were neither strategic nor transparent.

The new format of the budget focuses on outputs, and is meant to be a reasonably high level strategic document while the service delivery and budget implementation plan (SDBIP) is a more detailed management plan. By requiring the “vote” to be at a high level (department and functional area), the MFMA enables councillors to focus on policy and strategy while providing the mechanisms to hold management accountable for service delivery and budget implementation.

The level of the “vote” for the purposes of the MFMA should therefore be arranged around GFS functions and sub-functions, and aligned to senior managers. Note that this in most instances does not require organisational changes, as the vote format is flexible.

Diagram 1 below demonstrates the hierarchy of the “vote”. Each senior manager reporting directly to the municipal manager and the municipal manager him/herself is responsible for various service delivery functions (the GFS functions).

**Diagram 1**  
**MFMA “Vote” Hierarchy**



Each GFS function is a “vote” and must have associated with it appropriate breakdowns or sub-functions for operating expenditure, capital expenditure and revenue.

One of the key reforms required by the MFMA is to link **measurable performance objectives** to each “vote”, to ensure that municipalities are accountable to the community for service delivery as well as expenditure and revenue (See Circular No. 13 on the SDBIP). Such measurable performance objectives must also be broken down into specific objectives for sub-functions, to be published in the budget or SDBIP, and incorporated into the performance agreements of all managers in that municipality.

Diagram 2 on the following page indicates how each GFS function (eg electricity) is broken up into sub-functions (eg electricity distribution, electricity generation and street lighting). The GFS sub-functions are the fundamental basic elements that ideally should not be split up between different departments. Note that it is possible to create even smaller basic elements like GFS sub-sub functions, so that electricity distribution itself can be broken down further. For the purpose of this circular, we will treat the sub-function as the lowest level.

**Diagram 2  
Government Finance Statistics (GFS) Functions & Sub-functions**

Function	Sub Functions	Further description of Activities
Executive & Council		All costs for Mayoral, Councillor, and committee expenses Municipal Manager, Town Secretary and Chief Executive costs Including the costs of providing physical amenities for these activities
Finance & Admin	Finance	All activities relates to the finance function such as financial statements, budgets, management reporting, revenue collection (credit control), financial asset and liability management (treasury & cash management), rates, RSC levies, audit, creditors etc
	Human Resources	All activities related to the human resources function such as selection and recruitment, induction, career development, counselling, payroll, occupational health and safety etc
	Information Technology	All activities relating to IT services
	Property Services	Municipality owned and operated & leased properties including building operation and maintenance, administration etc)
	Other Admin	Security services, legal services, fleet management, asset management, procurement (orders, tenders, contract management etc), general risk management (incl. insurance) marketing publicity & media coordination (other than tourism)
Planning and development		Includes: Economic Planning and Development, Town Planning, Corporate Wide Strategic Planning (JDPs LEDs etc), Building Regulations and Enforcement, City Engineer (from a town planning perspective) etc
Health	Clinics	
	Ambulance	
	Other	Including Health Inspection
Community & Social Services	Libraries and archives	
	Museums & Art Galleries etc	Including monuments and historic houses and sites
	Other community halls and facilities	Exhibitions halls and places for community gatherings
	Cemeteries & Crematoriums	
	Child Care	Including creches etc
	Aged Care	Including old aged homes, home help, transport facilities etc (eg Theatres, Zoos etc - provide notes on significant activities)
	Other Social	Including literacy programmes etc
Housing		All activities associated with the provision of housing
Public Safety	Police	Includes police forces and traffic and street parking control
	Fire	Fire fighting and protection
	Civil Defence	Includes municipal commandos etc - not policing
	Other	Includes licensing and control of animals and control of public nuisances, disaster management (not civil defence)
Sport and Recreation		Includes community parks (incl. nurseries), sports grounds and stadiums, swimming pools, beaches, lakes, dams and jetties for recreation, camping sites etc
Environmental Protection	Pollution Control	Ambient air and climate protection
		Soil and groundwater protection
		Noise and vibration abatement
	Biodiversity & Landscape	Includes activities relating to the protection of flora and fauna species, the protection of habitats and the protection of landscapes for their aesthetic values (eg rehabilitation of abandoned mines and quarry sites)
Other	Includes coastal protection etc	
Waste Management	Solid Waste	Includes: refuse removal, solid waste disposal (landfill sites), street cleaning, recycling etc
Waste Water Management	Sewerage	This does not include water purification for human consumption
	Storm Water Management	This includes construction, maintenance, operating etc.
	Public Toilets	
Road Transport	Roads	Operating, maintenance and capital expenditure on the major infrastructure category of roads.
	Public Buses	All activities relating to the provision of public bus services
	Parking Garages	All activities associated with off street parking garages
	Vehicle licensing and testing	Vehicle licensing etc as an agent for the province
	Other	Includes activities associated with taxi ranks etc
Water	Water Distribution	Including bulk purchases and distribution infrastructure etc
	Water Storage	Including storage infrastructure such as dams and reservoirs as well as activities to prepare the water for use such as purification
Electricity	Electricity Distribution	Including bulk purchases and distribution infrastructure etc
	Electricity Generation	Gas is not included here and must be included under other
	Street lighting	Operating, maintenance and capital expenditure on the infrastructure category of Street lighting
Other	Air Transport	Municipal airports
	Abattoirs	Operation of abattoirs
	Tourism	Tourism promotion and development
	Forestry	All activities associated with the forestry industry
	Markets	Operation of markets - fresh produce etc
	Licensing & Regulation	Includes licensing of food and liquor sales to the public and and licensing of street traders (hawkers control) and business. Does not include building or planning regulation or vehicle licensing

Diagram 3 shows how each GFS function is allocated funds for operating expenditure, capital expenditure and revenue. Service delivery targets and performance indicators are to be attributed to each GFS function.

**Diagram 3**  
**Example showing link between “Departments”, “Votes” and “GFS Functions”**

	Opex R'000	Capex R'000	Rev R'000
<b><u>Expenditure and Revenue by Vote</u></b>			
<b>Department - Municipal Managers Office</b> Vote: Executive and Council	x	x	x
<b>Department - Chief Finance Officer</b> Vote: Finance & Administration (Finance)	x	x	x
<b>Department - Corporate Services</b> Vote: Finance & Administration (HR, IT, etc)	x	x	x
<b>Department - Planning &amp; Development</b> Vote: Planning and Development	x	x	x
Vote: Environmental Protection	x	x	x
<b>Department - Community Services</b> Vote: Community & Social Services	x	x	x
Vote: Sport & Recreation	x	x	x
Vote: Housing	x	x	x
Vote: Public Safety	x	x	x
Vote: Health	x	x	x
Vote: Refuse Removal	x	x	x
<b>Department - Water &amp; Sanitation *</b> Vote: Water	x	x	x
Vote: Waste Water Management	x	x	x
<b>Department - Electricity *</b> Vote: Electricity (Electricity Distribution)	x	x	x
<b>Department - Roads *</b> Vote: Road Transport	x	x	x
Vote: Electricity (Street Lighting)			
<b>Total By Vote</b>	x	x	x

\* Smaller municipalities may combine all of these "votes" under one director such as Director Technical Services

It is therefore possible for a GFS function to be shown under more than one senior manager (department). An alternative view to diagram 3 would show each “vote” only once and one or more different senior managers under each “vote” as appropriate.

It should be noted that within a vote, some categories of expenditure is required to be exclusively appropriated. This includes, for each vote, capital and operating expenditure, as well as key sub-functions. Measurable performance objectives are to be included for each vote; they will generally also be required for all or most sub-functions.

## **Adapting the Level of the “Vote” for Each Municipality**

An issue often raised by municipalities is that their organisational structure does not match the GFS sub-functions and therefore they are required to alter the organisational structure, which can be expensive. It is not necessary for any municipality to alter its organisational structure to meet the new requirements, as long as the municipality is able to ensure its reporting mechanisms allow for reporting by GFS functions and sub-functions. The municipality simply needs to allocate the activities carried out by each senior manager's department to one or more of the GFS sub-functions. The process for doing this is explained in the three documents on GFS classifications available on the NT website at [www.treasury.gov.za/mfma](http://www.treasury.gov.za/mfma) located under MFMA Circular No 12.

This approach recognises the dynamism of any organisation, although allowing for reporting in the GFS functional manner. Ensuring the “vote” is always at the GFS function level will assist with comparing budgets across years for the same municipality, even if its organisational form changes over time. Furthermore, it will assist with comparisons across municipalities and support the setting of benchmarks across the sectors.

The SDBIP should provide a matrix that links the departments, and the responsibilities of each senior manager within that department, with the relevant GFS sub-function and include the budget for each sub-function. If more than one senior manager contributes to a GFS function, this function will need to be shown separately under each senior manager for his or her component.

Municipalities may adapt the format in Diagram 3 to suit internal management purposes but must at the very least show the GFS function as the “vote” and link with the senior manager to facilitate accountability. MFMA circular No. 13 on the SDBIP also requires the Departmental SDBIP to be split into sections for each IDP goal that the department contributes to with the relevant GFS functions under each. This could be incorporated into the “vote” structure and would greatly enhance the linkage between the IDP and budget.

## **The Budget Resolution**

The definition of “vote” in the MFMA talks of appropriating money, sections 17 and 24 requires approval of operating expenditure, capital expenditure and measurable performance objectives for each “vote”. Revenues form an integral part of this process and require the approval of appropriate tariffs and charges. This ensures that service delivery targets can be achieved if allocated to specific functions of the municipality and each senior manager can be held accountable for service delivery and budget implementation within their areas of responsibility.

Budget documents supporting the budget resolution should set out operating expenditure, capital expenditure, tariffs, revenue, service delivery targets and other performance indicators for each GFS function (and sub-function) for each senior manager (though the resolution may not formally approve such detail).

The required format of the budget resolution will be published with the circular on the 2005/06 Budget to be released shortly.

## **Adjusting Revenue, Expenditure and Service Delivery Targets**

Following the previous discussion it is clear that management can only incur expenditure, collect revenue and deliver services according to the budget resolution approved by council.

Any expenditure incurred that is not in accordance with a vote (or exceeds the amount for a vote) is classified as unauthorised expenditure, which sets off corrective and disciplinary mechanisms against the accounting officer. Any movement of funds between “votes” or alteration of service delivery targets or performance indicators therefore requires an adjustment budget and a further council resolution. That is, a council resolution is required to deviate from the original council resolution that approved the budget.

Keeping the “vote” at a high level allows senior managers to move expenditure and revenue as necessary within a “vote” without an adjustments budget provided the overall revenue, expenditure and performance objectives for that “vote” are not negatively affected.

Furthermore, in-year reporting (monthly, quarterly, mid-year) and annual reporting requires comparison between projections and actual results achieved. Managers are expected to manage service delivery and budget implementation within the bounds of the budget resolution and will be accountable for performance in this regard. They are expected to report on service delivery outputs linked to their budgets. This is an improvement from past practices where managers were only held accountable for spending within budget limits regardless of delivery of outputs and outcomes.

Formats for adjustment budgets and in-year reporting will be the subject of subsequent circulars and will follow the format of the “vote” set out in this circular.

## Conclusion

The approach discussed in this circular is flexible and can accommodate any organisational structure provided each “vote” or department is broken down into GFS functions (or sub-functions and sub-sub functions).

The budget must provide related information on operating expenditure, capital expenditure, revenue and measurable performance objectives for each vote. The budget resolution will approve the budget to the level of the vote, and capital and operating expenditure and revenue within that vote, and other prescribed segments (eg sub-functions). The budget format is important for reporting mechanisms which are required to report against the budget, like the SDBIP; monthly reports; quarterly reports; mid year reports; adjustment budgets; and annual reports.

Municipalities will be required to review and possibly enhance current systems to ensure that their “votes” are consistent with the GFS functions. High capacity municipalities are required to achieve this for the 2005/06 budget and should have made significant progress already, due to previous advance work done on the new budget formats as part of the conditions of the Finance Management Grant. The GFS functions have been published since 2001. Medium and low capacity municipalities have between one and two years extra respectively to modify systems to enable budgeting and reporting by “vote” but are encouraged to put plans in place to comply sooner.

Municipalities are encouraged to feedback practical implementation issues to assist with further refinement as the MFMA is implemented in High, Medium and Low capacity municipalities.

Feedback and requests for further information on the “vote” should be sent to the dedicated MFMA email address or facsimile number listed on the following page.

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