BUDGET POLICY
BUDGET POLICY PREAMBLE

To ensure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government; to establish treasury norms and standards for the local sphere of government; and to provide for matters connected therewith, within the prescripts of legislation 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 budgets in each sphere of government must contain estimates of revenue and expenditure, differentiating between capital and operating expenditure; proposals for financing any anticipated deficit for the period to which they apply; and an indication of intentions regarding borrowing and other forms of public liability that will increase public debt during the ensuing year.

WHEREAS Section 16 of the Local Government: Municipal Finance Management Act, 2003 (Acts 56 of 2003) requires that a Municipality approves an annual budget before the start of the financial year, adopt, maintain and Implement a 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 Integrated Development Plan which carries the financial plan and budget projections to carry out service delivery. The Executive Mayor delegates this responsibility to the accounting officer to prepare the budget together with the Chief Financial Officer, senior managers and other officials.

WHEREAS Section 26 of the Municipal Systems Act, 2000 (Act 32 of 2000) requires the municipality to have a Integrated 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 City'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 the City of Tshwane and all its entities 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 councillors approve a policy, they set the broad framework within which the councillors and officials will take decisions and how they will be implemented. Efficient financial planning and management will ensure that funds are transparently planned for and will ensure sound and sustainable management of the fiscal and financial affairs of the city through the implementation of sound council policies.

Accountability as a function of financial management is a very important duty for both councillors and officials. Residents of the municipal area indicated their trust in those elected to effectively manage the money 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 people everyday. Councillors 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 councillors and officials.

The formulation of a budget policy has become essential to enable the City of Tshwane (CoT) to attain its strategic objectives in line with the city'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 sphere of government (as far as could be established), the CoT have 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/departments 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.

References will be made to particular legislation without quoting it verbatim. The users of this policy should therefore refer to the legislation for the exact text.
2. DEFINITIONS

In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Act has the same meaning as in the Act, and -

**Accounting**
The essential process of keeping track of money, both of the revenues received, and the expenditure going out.

**Audit**
The inspection of accounting records and testing of systems of internal control. The two main types of audits are internal and external.

**Budget**
The local authority's financial plan of action for a multi-financial cycle. The two types of budgets are operating and capital. The capital budget is the budget that deals with tangible assets or capital assets whilst the operating budget deals with recurrent and short-term expenditure, such as salaries, telephone costs, and fuel.

**Business Plans**
Narrative reports containing information on the objectives of the organisation or programme, how objectives intend to be achieved through action plans, target dates for implementation, resources required, people responsible for implementing plans, and how success in implementing action plans will be measured.

**Capital Assets**
Assets that are expected to be of continued use over a number of years such as bridges or buildings. The future economic benefit or potential service provision embodied in an asset is the potential to contribute, directly or indirectly, to the cash and the cash equivalent of the municipality as well as to the delivery of services.

**Deficit**
A deficit (shortfall or loss) occurs when more money is spent (expenditure) than the amount that was raised/levied (revenue).

**Expenditure**
Money spent on operating and capital expenditure.

**Financial Management**
A series of processes including budgeting funds; safeguarding revenue, capital and assets; monitoring performance; and financial reporting.

**Financial Statements**
A summary of the annual financial records of the local authority that provides a picture of the functioning of the local authority in monetary terms.

**Financial Year**
The financial year of local authorities runs from 1 July to 30 June of the following year.

**Fruitless and wasteful expenditure**
This is expenditure that was made in vain and would have been avoided had reasonable care been exercised.
Funds Management
A program on the computer system, managed by the Financial Services Department, disabling the overspending on certain expenditure items.

Grants
Grants are amounts of money including subsidies given to local authorities by the national or provincial government to fund certain functions such as roads and stormwater, sanitation, health care or emergency services etc. Grants can also be received from members of the public or other institutions. There are conditional (where conditions are set against expenditure) and non-conditional grants.

Incremental Budgeting
A method of preparing the budgets in local authorities. The budget for the next financial year is based on the actual revenue and expenditure of the previous financial year adjusted for expected price increases.

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

Integrated Development Plan
This is a plan that every local authority is required to prepare in terms of legislation. The plan should set out the economic and social development that is required in a local authority to develop and integrate communities. The plan should be based on community needs.

Interest
In the financial world, whenever someone borrows money, that person will have to repay more than they actually borrowed. This additional amount is called interest and is the profit that the lender makes from lending money to someone else.

Interest Rate
This is the amount of the interest that is charged on a loan (or received on a deposit) over a year, and it is expressed as a percentage.

Internal Controls
These are laid down internal rules, which set out the procedures which employees must comply with when executing their duties.

Loan
A loan is the sum of money that is lend to a borrower on conditions that it is repaid, either in instalments or all at once at a future date. The borrower usually has to pay the lender an agreed rate of interest.

Official
Any of the following:
- An employee of a municipality;
- a person contracted by the municipality to work as a member of staff otherwise than as an employee;
- a person seconded to a municipality to work as a member of staff.
Overspending

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

Programme Budgeting

Activities performed by strategic units/departments are classified as programmes that describe what the strategic units/departments are going to achieve. Budgets are prepared for each programme rather than for each strategic unit/department.

Rates

Taxes based on market values (land and buildings) of property.

Rates Assessment

Setting out the rates payable by each ratepayer and appear on the invoices.

Rates Base

All the individual property owners and businesses that are legally required to pay rates to the local authority.

Rates Rebate

The reduction in rates that is given to categories of ratepayers and categories of properties.

Revenue

The money raised by local authorities.

Service Charges

Charges made by local authorities to consumers for the provision and consumption of services such as electricity, water, solid waste removal and sanitation.

Surplus

A surplus occurs when the amount of revenue exceeds the amount of expenditure.

Unauthorised expenditure

Any expenditure incurred by a municipality otherwise than in accordance with section 11(3) or 15 of the MFMA, and includes overspending as defined in the definition overspending.

Valuation Roll

The valuator rolls record the value of the land and buildings (market value) of every property within the municipal area. These property values are used to determine the rates for each ratepayer.

Virement

Virement is a process whereby the unused budget of a specific line item of expenditure is used to finance another line item of expenditure which has insufficient budget.

Vote

A vote is one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different strategic units/departments or functional areas of the municipality and which specifies the total amount that is appropriated for the purposes of the strategic unit/department or functional area concerned (MFMA). A vote is thus a strategic unit/department as per approved structure.
Working Capital
Debtors, creditors, inventory and cash in the bank available to use for payment of employees and suppliers and financing of municipal activities.

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

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

The Municipal Systems Act addresses the role of local government in the society and the planning processes such as the Integrated Development Plan that supersedes the budgeting process.

The strategic planning process in the City of Tshwane encompasses various aspects herewith depicted as graphics.

3.1 Package of Strategic Plans

As a point of departure it is necessary to identify the products of the planning process that precedes the budget process:

<table>
<thead>
<tr>
<th>City Development Strategy (CDS)</th>
<th>5-Year Plan</th>
<th>Integrated Development Plan (IDP)</th>
<th>Sector Plans</th>
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<tr>
<td>This strategy sets out long term development logic with specific high leverage interventions.</td>
<td>This plan articulates a plan of action linked to the ANC electoral mandate.</td>
<td>The IDP links the 5-year plan to the running Medium-term Revenue and Expenditure Framework, departmental business plans and performance scorecards.</td>
<td>These plans articulate policy and strategy responses, giving detail content to the above plans.</td>
</tr>
<tr>
<td>Gauteng Development Strategy (GDS)</td>
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<td></td>
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<tr>
<td>This GDS informs an economic development plan, drawing from CDS logic.</td>
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3.2 Explaining the planning and budgeting process

<table>
<thead>
<tr>
<th>Term of office (5)</th>
<th>2006</th>
<th>2011</th>
<th>2016</th>
<th>2021</th>
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<tr>
<td>IDP</td>
<td></td>
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<td>Programme formulation</td>
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<td>3 Year MTREF</td>
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<tr>
<td>Project preparation</td>
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<tr>
<td>Annual Program + project delivery</td>
<td></td>
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<tr>
<td>Funding » Procurement » Implementation » Scorecard Report</td>
<td></td>
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</table>

CDS/GDS 20-year agenda
3.2.1 The following graphics depict the interrelation between the planning-, budgeting- and control processes:

![Interrelations Diagram]

3.2.2 The above diagram illustrates links that integrates and co-ordinates plans, taking into account proposals of the development of the municipality. There is alignment of resources to the capacity of the municipality with implementation monitored through performance against the city’s scorecard.

### Inter-relations

<table>
<thead>
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<th>Focus</th>
<th>Scope</th>
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<tbody>
<tr>
<td><strong>CDS/GDS</strong></td>
<td>City-wide strategy/Transformational/Selective high impact/Intergovernmental</td>
</tr>
<tr>
<td><strong>IDP</strong></td>
<td>Compliance/Community engagement/Municipal service mandate scope</td>
</tr>
<tr>
<td><strong>5-Year Plan</strong></td>
<td>Backlog focussed/Highly Localised/Ward/Narrow scope</td>
</tr>
<tr>
<td><strong>Budget</strong></td>
<td>Resource driven/Affordability/Capacity</td>
</tr>
<tr>
<td><strong>Procurement</strong></td>
<td>Guidelines compliance</td>
</tr>
<tr>
<td><strong>Implementation</strong></td>
<td>What is possible within constraints</td>
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3.2.3 To summarise: The strategic planning and budgeting processes should be based on the following guiding principles:
3.2.3.1 Principle I – Establish Broad Goals to Guide Government Decision Making:

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

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

- Provide basic services, roads and stormwater
- Economic growth and development, and job creation
- Sustainable communities with clean, healthy and safe environments and integrated social services
- Foster participatory democracy and Batho Pele
- Promote sound governance
- Ensure financial sustainability
- Organisational development and transformation.

3.2.3.2 Principle II – Develop Approaches to Achieve Goals

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

3.2.3.2.2 The City of Tshwane has developed measurable performance objectives with Key Performance Indicators, City Targets, and Key Drivers to define how it will achieve the long term objectives.

3.2.3.3 Principle III – Develop a Budget with Approaches to Achieve Goals

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

3.2.3.3.2 The proposed budget should be affordable and sustainable. The tariffs and rate increases should be within the CPI and MCI range.

3.2.3.4 Principle IV – Evaluate Performance and Make Adjustments

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

3.2.3.4.2 The City of Tshwane has established targets with key performance indicators reflected in the City Scorecard to continually evaluate the budget against the long term strategic objectives.
4. LEGAL ENVIRONMENT

4.1 LEGISLATION AND POLICY STRATEGY

The City of Tshwane is committed to comply with applicable legislation as it pertains to budgeting and financial management and the following legislation are relevant:

- THE CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA Act No 108 of 1996
- THE MUNICIPAL FINANCE MANAGEMENT ACT No 56 of 2003
- THE MUNICIPAL SYSTEMS ACT No. 32 of 2000
- THE MUNICIPAL STRUCTURES ACT No. 117 of 1998
- AND OTHER APPLICABLE BY-LAWS, ORDINANCE AND LEGISLATION.

4.2 NATIONAL TREASURY PRACTICES NOTES

Cognisance must be taken of all National Treasury Circulars that may have an impact on the budgeting process and procedures.
5. OBJECTIVES OF THE MUNICIPAL FINANCE MANAGEMENT ACT (MFMA)

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

The objectives of the MFMA is to ensure sound and sustainable management of the fiscal and financial affairs of municipalities and municipal entities by establishing norms and standards and other requirements for:

(a) Ensuring transparency, accountability and appropriate lines of responsibility in the fiscal and financial affairs of municipalities and municipal entities;

(b) The management of their revenues, expenditure, assets and liabilities and the handling of their financial dealings;

(c) Budgetary and financial planning processes and the co-ordination of those processes with the processes of organs of state in other spheres of government;

(d) Borrowing;

(e) The handling of financial problems in municipalities;

(f) Supply chain management; and

(g) Other financial matters
6 IMPLEMENTATION OF THE BUDGET POLICY

This policy applies to:

(a) Financial Planning (Business Planning)
(b) Financial Modelling
(c) Budget Capturing
(d) Monitoring (Fund Transfers and Adjustments)
(e) Funds Management
7 OVERALL OBJECTIVES, PRINCIPLES & ROLES

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

7.1 Objectives of the Budget Policy

The objectives of the Budget Policy as contained in the MFMA is –

(a) To give effect to the provisions of Section 215 of the Constitution of the Republic of South Africa, 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).

7.2 City of Tshwane Financial Management Strategic Objectives

To ensure good governance, financial viability and optimal Institutional transformation with capacity to execute its mandate. Key Performance Area: Promote sound governance and ensure financial sustainability is achieved when the following are present:

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

7.3 Principles

Principles of the Budget Policy are to be adhered to for 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 principle of value for money.
(c) The Budget must be aligned specifically to the imperatives of the Integrated Development Plan, City Development Strategy and the broader targets and objectives of the City.
(d) Intermediary service level standards should be utilised to subsequently inform the measurable objectives, targets and backlog eradication goals.
(e) Tariff and Property Rate increases should be affordable and on par with CPI however, sustainability of service delivery and addressing infrastructure backlogs will determine the necessary percentage increase.
(f) Municipal Cost Index (MCI) calculates the inputs and raw material costs relevant to municipalities which must also be considered when tariff increases are calculated.
(g) In revising rates, tariffs and other charges:
   - Tariffs for electricity, water, sanitation and waste removal services should be cost reflective.
   - Publish multi-year tariffs to signal expectations to households and businesses.
   - Increases above the upper boundary of the South African Reserve Bank’s inflation target must be motivated as required by NT.
- Standard tariffs will be applicable to all residents within the boundaries of the CoT (except when services are rendered by another service provider such as Eskom).

(h) Funding choices must ensure sustainability as determined in the funding compliance assessment and regulated by NT.

(i) With regard to the compilation of the capital budget:
- The outer years (year 2 and 3) as approved with the previous MTREF will be utilised as the departure point.
- Contractually bound and ongoing projects will take preference.
- Should any funding capacity be available after funding the above mentioned, new projects will be prioritised and funded in terms of priority, value for money, benefit to the CoT and strategic objectives.

(j) With regard to multiple funded capital projects, external funds received must first be appropriated.

(k) No budget will be allocated for 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 (also in terms of the MFMA).

(l) No budget will be allocated for external funded projects unless it is gazetted or the request is supported by a written confirmation from the external source on the specific grant.

(m) Strategic units/departments must ensure that their projected cash flow is aligned to their operational and capital project plans to assist with the CoT cash flow management.

(n) Salary increases will be based on the SALGA wage agreement.

(o) An affordable amount is determined during the Budget Process and unless supported by a list and/or motivation associated with the cost, no budget will be allowed on the following line items:
- Special projects
- Consultant fees
- Non capital items
- Special events
- Special events grant-in-aid
- Professional services
- Subsistence, Travelling and Conference fees (national and international)

(p) It should be noted that the motivations received for these line items will be evaluated per project, per travel requirement or item to be purchased and funding will be allocated according to mainly affordability, priority, value for money and benefit to the CoT. Not all requests motivated will necessarily receive funding.

(q) Reimbursements: Only the following officials will receive funding for reimbursements which will be budgeted for by the Budget Office:
- Executive Mayor
- Chief Whip
- Speaker
- MMC’s
- City Manager

(r) An amount for refreshments for external visitors will be budgeted for by the Budget Office per strategic unit/department against the profit centre of the departmental head.

(s) Rates and increases must take into account the need to address infrastructure backlog.

(t) An analysis of performance trends in terms of operational and capital budget components are undertaken, with specific attention being given to underperforming strategic units/departments/functions.

(u) Repairs and Maintenance to be increased in real-terms.

7.4 Role of the Executive Mayor

The Council must maintain oversight over the implementation of the Budget Policy. For the purpose of such oversight, the Executive Mayor of a Municipality must –
(a) Monitor, oversee the exercise of responsibilities assigned in terms of the MFMA to the accounting officer and the chief financial officer, but may not interfere in the exercise of those responsibilities;

(b) Take all reasonable steps to ensure that the municipality performs its constitutional statutory functions within the limits of the municipality’s approved budget;

(c) The Executive Mayor must, within 30 days of the end of each quarter, submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality; and

(d) Evaluate whether the municipality’s approved budget is implemented in accordance with the service delivery and budget implementation plan;

(e) Instruct the accounting officer to ensure that the budget is implemented in accordance with the service delivery and budget implementation plan and that spending of funds and revenue collection proceed in accordance with the budget.

7.5 Role of the Accounting Officer (City Manager)

The City Manager is the accounting officer and the administrative authority for the municipality. In the first instance the City Manager is accountable to the Executive Mayor for the implementation of specific agreed outputs.

In the second instance the City Manager is accountable to the Council for the overall administration of the municipality. The City Manager must be fully aware of the reforms required in order to provide the Executive Mayor, Councillors, senior officials and municipal entities with the appropriate guidance and advice on financial and budget issues. Whilst the City Manager may delegate many tasks to the Chief Financial Officer or other senior officials, this must be done carefully to ensure that all tasks are completed appropriately.

The Accounting Officer (City Manager) should -

(a) Implement the municipality’s approved budget, including taking all reasonable steps to ensure that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget.

(b) Ensure that revenue and expenditure are properly monitored.

(c) When necessary, the accounting officer must prepare an adjustments budget and submit it to the Executive Mayor for consideration and tabling in the municipal council.

(d) Report to the municipal council any shortfalls in the budget revenue, overspending and the necessary steps taken to prevent shortfalls or overspending.

(e) Submit to the Executive Mayor actual revenue, borrowings, expenditure and where necessary report the variances on revenue projected and the budget.

7.6 The role of the Chief Financial Officer (CFO)

The Chief Financial Officer is the administrative head of the budget and treasury office. The Chief Financial Officer has an essential function in assisting the City Manager to carry out his or her financial management responsibilities, in areas ranging from budget preparation to financial reporting and the development and maintenance of internal control procedures. The Chief Financial Officer plays a central role in implementing the financial reforms at the direction of the City Manager with assistance of appropriately skilled staff.
7.7 The role of senior managers and other officials

According to the MFMA, the following are the roles to be carried out by the senior managers and other officials:

(a) That the system of financial management and internal control established for the municipality is carried out diligently;

(b) Ensure that the resources of the municipality are utilised effectively, efficiently, economically and transparently;

(c) Prevent unauthorised, irregular or fruitless and wasteful expenditure and other losses;

(d) Collection of revenue;

(e) Safeguarding, maintenance and management of assets; and

(f) Submission of information to the accounting officer for compliance with the Act.
8 FINANCIAL PLANNING

Flowing from the strategic planning process, a new process takes shape, namely the budgeting process. Budgeting is in essence a set of individual activities linked together in an orderly way to produce the budget. Process charting is a technique to help identify, define, and link all of the activities together so that everyone understands the process; the responsibilities of his or her organisation; and the sequence of events. A process flow chart and a timeline chart are two of the most common charts to be used in budgeting.

Budgetary planning and control has the following objectives:

- To ensure that the city development strategy objectives are achieved through the integrated development plan (the five year program);
- To compel proper planning;
- To communicate ideas and plans;
- To provide a framework for responsibility accounting;
- To establish a system of control; and
- To motivate employees to improve their performance.

8.1 Steps in the budget process

8.1.1 According to Section 53 of the MFMA the budget process starts with the Executive Mayor. This section dictates that the Executive Mayor must provide general political guidance over the budget process and the priorities and must guide the preparation of the budget and co-ordinate the annual revision of the IDP.

8.1.2 In addition, the Executive Mayor of a municipality must take all reasonable steps to ensure-

- that the municipality approves its annual budget before the start of the budget year;
- that the municipality's service delivery and budget implementation plan is approved by the Executive Mayor within 28 days after the approval of the budget; and
- that the annual performance agreements as required in terms of section 57(1)(b) of the Municipal Systems Act for the city manager and all senior managers comply with this Act in order to promote sound financial management; are linked to the 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.

8.1.3 The Executive Mayor must promptly report to the municipal council and the MEC for finance in the province any delay in the tabling of an annual budget, the approval of the service delivery and budget implementation plan or the signing of the annual performance agreements.

8.2 Budget time schedule framework

Below is an example of the budget time schedule to be followed in terms of the MFMA to address the specific activities illustrated in the table below. These are key deadlines impacting on the Corporate and Business Planning Process, Integrated Development Plan, City Development Strategy and Operational Performance as well as the Budget capturing process. The MMC for Finance is tasked with ensuring that the budget time schedule is implemented.
<table>
<thead>
<tr>
<th>Activity (functionality)</th>
<th>Responsibility</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal Integration Meeting to discuss roles and responsibilities aligned to the compilation of the annual financial and planning guidelines</td>
<td>CBP; CFO; CDS, IDP &amp; OP</td>
<td>First Wednesday in June each year</td>
</tr>
<tr>
<td>First Mayoral Budget Lekgotla (Mayoral Budget Committee) – to provide political guidance for the forthcoming MTREF in order to review the LTFM. (Strategic agenda)</td>
<td>CBP, CDS, IDP &amp; OP/MMC Finance</td>
<td>First Week of July</td>
</tr>
<tr>
<td>DMC high level training: Including business planning, PMS, Priorities to be budgeted for and financial process procedure training for budget consideration.</td>
<td>CBP; CFO; CDS, IDP &amp; OP</td>
<td>Second Week of August until beginning of September</td>
</tr>
<tr>
<td>SDBIP/Departmental SDBIP’s review of current year incorporating strategic agenda priorities.</td>
<td>CBP</td>
<td>End of September</td>
</tr>
<tr>
<td>IDP Needs collected, verified and refined for forthcoming year</td>
<td>CDS, IDP &amp; OP</td>
<td>Beginning of September until end of January following year</td>
</tr>
<tr>
<td>Business Planning Development and departmental capturing of detail operational and capital budget proposals for the coming year based on current year.</td>
<td>CBP; CFO</td>
<td>Beginning of October until end of November</td>
</tr>
<tr>
<td>Strategic Unit/departmental adjustments budget submissions for the current year.</td>
<td>CFO</td>
<td>Last Week of October until beginning of November</td>
</tr>
<tr>
<td>Municipal Entity mid-year budget and performance assessment</td>
<td>CFO</td>
<td>Second Week of October</td>
</tr>
<tr>
<td>Municipal Entity Draft Budget Submissions for the coming year’s MTREF</td>
<td>CEO’s of Entities assisted by SEO’s</td>
<td>First week of January</td>
</tr>
<tr>
<td>Mid-year review and Adjustments Budget – Council Approval</td>
<td>CFO</td>
<td>On or before 25th January</td>
</tr>
<tr>
<td>Long-term Financial Model Review High level budget allocations for the two outer years.</td>
<td>CFO</td>
<td>End of January</td>
</tr>
<tr>
<td>Strategic Unit/departmental budget hearings</td>
<td>CFO</td>
<td>First Week of February</td>
</tr>
<tr>
<td>Alignment and service streamlining to City score card.</td>
<td>Corporate &amp; Business Planning</td>
<td>First Week of February</td>
</tr>
<tr>
<td>Preparation and consolidation of proposed MTREF (coming year)</td>
<td>CFO</td>
<td>Second Week of February</td>
</tr>
<tr>
<td>Second Mayoral Budget Lekgotla (Mayoral Budget Committee) – political review of Draft MTREF</td>
<td>MMC Finance</td>
<td>Third Week of February</td>
</tr>
<tr>
<td>The Member of Portfolio Committee for Finance should submit the draft budget to the Executive Mayor before end of February.</td>
<td>MMC Finance</td>
<td>Third Week of February</td>
</tr>
<tr>
<td>Table MTREF for the new budget year.</td>
<td>MMC Finance</td>
<td>Last Week of March</td>
</tr>
<tr>
<td>Community Consultation in terms of the MFMA. Special sessions are also scheduled for interaction with the local business, community and the media.</td>
<td>Office of the Speaker</td>
<td>Second Week of April</td>
</tr>
<tr>
<td>Third Budget Lekgotla</td>
<td>MMC Finance</td>
<td>Fourth Week of April</td>
</tr>
<tr>
<td>Finance Portfolio Committee recommends MTREF.</td>
<td>MMC Finance</td>
<td>Second Week of May</td>
</tr>
<tr>
<td>Activity (functionality)</td>
<td>Responsibility</td>
<td>Timeframe</td>
</tr>
<tr>
<td>------------------------------------------</td>
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</tr>
<tr>
<td>Mayoral Committee recommends MTREF</td>
<td>MMC Finance</td>
<td>Third Week of May</td>
</tr>
<tr>
<td>Council Budget Approval</td>
<td>MMC Finance</td>
<td>Last Week of May</td>
</tr>
<tr>
<td>Once approved by Council, the budget is</td>
<td>CFO</td>
<td>First Week of June</td>
</tr>
<tr>
<td>submitted to the National Department of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance within the format required by</td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Treasury, as well as the</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provincial Department of Local Government</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8.3 Community consultation process

8.3.1 Immediately after an annual budget is tabled in a municipal council the accounting officer must make public the annual budget and documents; invite the local community to submit representations in connection with the budget; and submit the annual budget to the National Treasury and the relevant provincial treasury in printed and electronic formats.

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

8.3.3 The tabling of the draft budget in Council will be followed by extensive publication of the budget documentation. The Ward Committees play a significant role in conducting various consultative meetings to receive submissions from stakeholder’s formations.

8.3.4 Other platforms of consultations is the Business week conferences and Imbizos as participants are drawn from the private sector and local and national government, regional business organisations, research institutions, etc.

8.3.5 The Special Programmes Unit (SPU) located in Governance (Office of the Executive Mayor, Chief Whip, Speaker & City Manager in terms of the ASD structure) is responsible for a key performance area on vulnerability and development potential and related matters of targeted groups through policy and strategies, research and co-ordination. Targeted or Vulnerable Groups refer to:

(i) children,
(ii) youth,
(iii) women,
(iv) people with disabilities (the disabled); and
(v) older persons (the elderly).

8.3.6 This key performance area is achieved by, inter alia, platforms of reporting and advocacy (mainly consultative in nature), for example Imbizos. These consultative platforms are generally linked to annual commemorative days/periods intended to highlight the role and importance of these sectors of society.
9 FINANCIAL MODELLING

9.1 Long-term Financial Model

9.1.1 The City of Tshwane makes use of the Long-term Financial Model (LTFM) to inform the Medium-term Revenue and Expenditure Framework compilation. The model is updated and remodelled taking into consideration economic changes, guidelines from other National Departments, strategic and policy direction of the Municipality to ensure sustainability and goal orientated service delivery. The remodelling of the LTFM, in terms of the approved time schedule must be completed by the end of January each year. In the event that resource allocations change owing to the remodelling of the LTFM, strategic units/departments have to realign their business planning within the affordability restriction.

9.1.2 The LTFM is utilised to ensure financial affordability and sustainability over the medium to long term and is considered a key financial planning tool. A salient feature of the model is the attentiveness to ultimate sustainability, not only in a financial light but also relating to service delivery in line with the CDS imperatives/priorities and the linkage to the 5-year Programme.

9.1.3 The financial model recognises that the development and implementation of the various financial planning reforms (e.g., MFMA, GRAP and National Treasury Financial Reforms) have fundamentally changed the approach adopted in terms of financial planning. The need for an integrated approach when appropriating resources has become essential for sustainable outcomes especially taking into consideration the size and diverse challenges of the Municipality.

9.1.4 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.

9.1.5 The adoption of a long-term financial model is based on various factors and financial variables which ultimately influence the budget to be adopted by Council. The following are the major factors that are taken into consideration, and which will primarily determine the financial approach:
9.1.6 The following are to be considered before embarking on the formulation of the LTFFM:

- The first is the economic situation in the country (macro-economic framework).
- The second is the balance between existing revenues and demands for expenditure under existing legislation and policy (revenue and expenditure estimates).
- The third are the policies and programs the local government wishes to pursue through budget expenditures (local government policies and priorities).
- The effect of accepted accounting guidelines.
- Asset management principles.

9.2 The macro-economic framework

9.2.1 A macro-economic forecast has to be evaluated based on the following components:

- An analysis of the economy, by sector;
- Demographic trends related to employment and other factors;
- Trade projections and current account balances;
- Money supply and other monetary considerations;
- Government influences on the economy;
- Inflation, both general and by sector;
- Savings and investment trends;
- Government indebtedness; and
- Major events influencing the economy.

9.2.2 The macro-economic framework is guided by the following principles:

- The early and careful attention to economic trends as an important foundation for budget formulation. The flexibility in design and management of a budget formulation process does not remain static.
- Each year, it must take into consideration how economic trends will affect revenues and the policy goals of the local government.
- An understanding of the types and extent of likely revenues is needed to guide preliminary decisions about the Municipality's spending and about revenue policy.
- Demographic trends have a direct and significant effect on any local government revenues and expenditures and also on local government policy.
- Develop sound budget proposals based on good understanding of both the Municipality's policy directions and existing legal requirements.

9.3 Revenue and expenditure forecasting

Revenue and expenditure forecasting are a second major preliminary area of importance. The following guiding principles are worth noting and understanding in this regard.

- Revenue and expenditure forecasts being the start of the long-term financial model and budget formulation process.
- Revenue forecasts based on variables and uncertainties will always be inaccurate to some degree. It must be accepted that they will be no better than the economic assumptions upon which they are based.
- More focused participation
- The need for accurate revenue forecasts applies to all revenue sources, including funds obtained through operating activities, grants and donations and special funds.
- Revenue estimates are the basis for evaluating expenditure and rates and tax policies and for allocating funds for budget formulation.
Important economic variables affecting revenue estimates are (a) the rate of economic growth (GNP and GDP), (b) price levels, (c) the unemployment rate, and (d) interest rates.

A revenue forecast that assumes a growing economy, high employment, low inflation, and low interest rates will project higher revenues and lower expenditures.

Revenue estimates cover several years to accommodate a medium-term budget framework.

"Political," or overly optimistic, revenue estimates lead to very serious budget problems in the future.

9.4 Local government policies and priorities

Another area of major importance early in the LTFFM formulation process is the establishment of local government policies and priorities. Four guiding principles are indicated below:

- The strengthening of information, analysis, and decision-making in a budget process to express specific goals and objectives.
- Local government policies must be clearly documented if they are to be understood and applied in budget formulation.
- Existing legislation establishes many local government policies.
- Priorities are needed to guide the allocation of funds among strategic units/departments and programs at the start of the budget process, and also to ensure that strategic units/departments submit proposals consistent with the priorities of the local government.

9.5 Generally Recognised Accounting Practice (GRAP)

The key aspects of GRAP implementation to the Model include capitalisation and depreciation requirements and the necessity to budget for profit or loss on asset disposal. The budget process requirements will therefore have to consider the further refinement of these accounting standards and policies.

9.6 Asset management (infrastructure investment and funding)

9.6.1 Preserving the investment in existing infrastructure is a key Model. The Long-term Financial Model (LTFFM) must be updated annually to provide for an updating of the impact of various asset renewal strategies. E.g., Asset renewal

9.6.2 The LTFFM must be constructed to allow for a 'what-if' analysis to illustrate the impact of any variation in renewal levels, and use a 90% target of average annual depreciation as the funding requirement of asset renewal, as well as a guide to the selection and prioritisation of individual capital projects.
10. BUDGET COMPILATION

10.1 OPERATING BUDGET

10.1.1 Operating Revenue

10.1.1.1 The City derives its revenue from the following major sources (Debtor Revenue): Property Rates, Electricity, 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).

10.1.1.2 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. Service 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.

10.1.2 Revenue Items

10.1.2.1 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. Requests 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 hereto as an annexe.

10.1.2.2 Revenue groups

Revenue items are categorised 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.

10.1.3 Property Rates

10.1.3.1 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.

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

10.1.3.3 Council adopted the Rates Policy on 17 February 2006 following the public participation process. It must be noted that the Rates Policy is not a static document and has to be reviewed annually by Council during the budget process. The requirement of section 3(e) of the MPRA is to identify and quantify the cost to the municipality and any benefit to the local community, can only be determined during the budget process after the new General Valuation has been compiled.
10.1.4 Tariffs

10.1.4.1 Tariff charges are affected 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 growth parameters are set by National Treasury, consistent with the target range of the inflation band, to ensure that all spheres of government support the national macroeconomic policies and targets, unless it can be shown that external factors impact otherwise.

10.1.4.2 The tariff setting process of the City of Tshwane 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.

10.1.4.3 The following principles and guidelines should be considered in tariff setting:
- The ability of the community to pay for services received;
- The average effect on consumer accounts;
- Realistic revenue estimates through a conservative, objective and analytical process based on realistically expected revenue, taking into consideration available actual revenue and estimated growth percentages;
- Identification and pursuance of grants from national, provincial and other agencies;
- The impact of inflation, the municipal cost index and other cost increases;
- An aggressive policy of collecting revenue;
- The requirements of the various tariff policies;
- Guidelines with regard to main services accounts;
- Credible collection rates and collection improvement targets;
- The ability to extend new services and the recovering of costs; and
- Actual performance.

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

10.1.4.5 The tariffs for main services, property rates and all other tariffs (e.g., building plan fees, swimming baths etc) are increased annually during the budget process and are effective from 1 July.

10.1.4.6 In order to have the tariffs ready for inclusion in the draft budget report and documentation for community consultation purposes during April, the following should be adhered to:
- Amended tariff structures and/or calculations for other services have to be submitted to the Financial Services Department by not later than the end of November of the previous financial year;
- VAT, where applicable, should be included in the tariffs for other services;
- Tariffs for the main services (excluding VAT) and property rates have to be submitted to the Financial Services Department by the relevant strategic units/departments (Water and Sanitation, Electricity and Waste removal) by not later than the end of January of each year as all tariffs are to be revised annually;
- All the tariff schedules should be in the format used for promulgation;
- Any changes emanating since the approval of the draft budget for community consultation purposes will be included in the budget report and documentation to be considered by Council during May;
- For promulgation purposes tariffs have to be approved by Council at least 30 days prior to commencement of the new financial year.
10.1.5 Basic Social Package in the Indigent Policy

10.1.5.1 The City of Tshwane is committed to the provision of basic services to the poor.

10.1.5.2 The social package assists the Municipality in meeting its constitutional obligations as it comes to progressively realise the social and economic rights of its indigent residents.

10.1.5.3 The City of Tshwane makes use of the equitable share to prioritise its budget towards the poor households.

10.1.6 Unfunded and under-funded mandates

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

10.1.6.2 The understanding and definitions in financial terms of funded, under-funded and unfunded mandates is as follows:

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

10.1.7 Operating expenditure

10.1.7.1 Expenditure items

The budgeting and accounting system makes 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 then to the Accounting Section of the Treasury Management Division for implementation.

10.1.7.2 Expenditure groups

Expenditure items are categorised in terms of GFS in the following groups which correlate with the groups used in the Statement of Financial Performance (Statfinper):

- Employee related costs
- Remuneration of Councillors
- Debt Impairment
- Depreciation and Asset Impairment
- Finance Charges
- Bulk purchases
- Other materials
- Transfers and Grants
- Contracted services
- Other expenditure
- Loss on disposal of Property, Plant and Equipment.
10.1.7.3 Medium-term Revenue and Expenditure framework guiding principles

The following guiding principles have to be considered when compiling the Medium-term Revenue and Expenditure Framework:

- The ability of the community to pay for services received.
- The average effect on consumer accounts.
- Realistic revenue estimates through a conservative, objective and analytical process based on realistically expected revenue, taking into consideration available actual revenue and estimated growth percentages.
- Identification and pursuance of grants from national, provincial and other agencies.
- The impact of inflation, the municipal cost index and other cost increases.
- 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 into account;
- Achievement of an annual collection rate of 98% for consumer revenue (as per City Scorecard 5 Year Plan);
- Tariff increases in line with resources required;
- Electricity tariff increases within NERSA approval;
- Achievement of full cost recovery of specific user charges;
- Sufficient yield on property rates to result in required total revenue;
- The average total impact must be inflation related; and
- Tariff escalation rate must be determined by establishing/calculating revenue requirement.
10.2 CAPITAL BUDGET

10.2.1 Conditions of capitalisation

According to GRAP 17 property, plant and equipment are tangible items that:

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

10.2.1.1 Control, and not ownership, determines whether an item must be recognised as an asset in the Municipality’s asset register (although control usually coincides with the transfer of ownership). In some cases control may possibly already have been established before actual ownership has taken effect. Due consideration must be given to ascertain whether control over the asset is certain and indeed exercised by the City of Tshwane, e.g., cross-boundary assets. Subsequent cost against an item of property, plant and equipment not under the control of the City of Tshwane may also not be approved and should therefore not be included in the capital budget.

10.2.1.2 The definition refers to tangible (physical) property, plant and equipment. Certain intangible assets that are directly attributable to the realisation of tangible property, plant and equipment (PPE) are also recognised. This includes all development costs related to the creation of an asset, but not feasibility studies, basic planning costs, multi-option designs, etc, as it must be certain at the time the costs are incurred that the eventual asset will indeed realise.

10.2.1.3 The threshold value (minimum acquisition price) is used, amongst other qualifications set out by GRAP, to determine which items need to be capitalised and included in the Asset Register. The threshold value will be annually reviewed by the Chief Financial Officer. The current value stands at R10 000,00.

10.2.1.4 All finance leases must be capitalised and the resulting assets registered in the City’s asset register. A lease is classified as a finance lease, other than an operating lease, when it transfers substantially all the risks and rewards incident to ownership of the asset from the lessor to the lessee, in return for a payment or series of payments by the lessee to the lessor.

10.2.2 Budgeting for assets

10.2.2.1 All assets (including insurance replacements) are to be acquired through capital projects registered on SAP, from where the assets will be identified and placed on the asset register once the Municipality has taken control of the assets.

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

10.2.2.3 All draft capital budgets must be in line with this Policy and submitted to Council for approval whereupon the Budget Office will put procedures in place to ensure that the capital projects provided for in the budget are captured in the approved system per Work Breakdown Structure.

10.2.2.4 Excess budget available on capital projects may not be used for purposes other than what the project was initially intended for. For example, excess budget available on a capital project for the building of a road (owing to savings for instance) may not be used to purchase computers on the same project.
10.2.3 **Recognition of the costs**

10.2.3.1 The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:
- it is probable that future economic benefits or service potential associated with the item will flow to the entity, and
- the cost or fair value of the item can be measured reliably.

10.2.3.2 Costs will only be recognised as assets if it is probable that future economic benefits or service potential will flow to the Municipality. It must therefore be expected that the items may in future be held in use, either for the production or supply of goods or services, for rental to others or for administrative purposes (expected usefulness). Current technology, the use of similar items, etc can be used to determine the expected usefulness.

10.2.3.3 Items of which the cost or fair value cannot be measured reliably may not be capitalised. In most cases the cost will be readily identifiable as being the total construction cost or purchase cost of the asset. However, in some cases it might be necessary to measure the cost by making use of estimations, independent valuations, industry standards, etc.

10.2.3.4 A capital project that appears on the capital budget is only partial evidence that the expenditure may need to be capitalised on incurrence thereof. Projects that have a capital appearance and nature (and have therefore been budgeted as capital) but which may not be capitalised, either partially or in full, will be adjusted to ensure that only costs that comply with this policy are capitalised. The adjustment will therefore be transferred to the operating account.

10.2.4 **Recognition of property, plant and equipment**

10.2.4.1 The expected use of the PPE must extend over more than one reporting period (a 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 recognised as current assets.

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

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

10.2.4.4 It is imperative that the profit centre owners/project managers notify Supply Chain Management immediately when their projects have been completed and the resulting assets realised in order to ensure the timely registration of these assets on the asset register. When certain capital projects will result in more than one asset being realised and during the life cycle of a project (ie before completion of the entire project) the Municipality has taken over control of some of the individual assets, Supply Chain Management must be duly informed to similarly ensure capitalisation of these assets.

10.2.4.5 The process whereby Supply Chain Management is informed of the completion of a project is the marking of the project as "technically complete" by the project manager/profit centre owner.

10.2.4.6 The process whereby physical assets are donated to the Municipality is an exception to the capitalisation of assets through projects. However, profit centre owners remain responsible to notify Supply Chain Management of these donations, by making use of the appropriate asset management
form, to ensure recognition of the donated assets on the asset register, and disclosure on the financial statements.

10.2.5 Depreciation

10.2.5.1 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.

10.2.5.2 Assets capitalised 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.

10.2.5.3 An asset is depreciated over its useful life. The useful life refers to the asset's 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.

10.2.5.4 The depreciation charge for each period is recognised as an expense in the operating budget as well as the statement of financial performance.
11. BUDGET MONITORING AND REVIEW

11.1 MONITORING

11.1.1 Monitoring Performance

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

11.1.1.2 The public have a right to know what money is being spent on, and what decisions their elected representatives make on their behalf. It is only with this knowledge that elected officials can be held accountable for their budget planning, allocations and implementation.

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

11.1.1.4 In the City of Tshwane the approved budget is categorised into Operating and Capital budgets and therefore the monitoring thereof will be done accordingly.

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

11.1.1.6 During the 2009/10 financial year funds management was implemented to assist with internal control in order to prevent over expenditure and assist the CoT in managing financial challenges. However in exceptional circumstances when service delivery can be hampered the City Manager and Mayoral Committee can on motivation submitted by the relevant strategic unit/department, approve and implement the necessary measures to ensure continuous service delivery. However, the strategic unit/department must submit the approved report to the Council for cognisance.

11.1.2 Financial Viability

11.1.2.1 Monitoring the financial viability of council, particularly transactions affecting Cash Flows is essential, as it has a direct impact on Council pursuing its activities as set out in its Strategic plan. Cash flow management is critical due to the requirements of the MFMA. Section 45 of this act severely limits the municipality’s ability to use short term debt.

11.1.2.2 During the budget compilation process strategic units/departments are required to do periodic planning of all revenue and expenditure for both operating and capital budgets for the following reasons:

- For monitoring of performance;
- For proper cash flow planning. If the Financial Services Department is forced to arrange for additional loans to bridge the gap caused by a deviation from the periodic planning, the interest on such loans can be seen as fruitless and wasteful expenditure.

11.1.2.3 Periodic planning for operating revenue and expenditure differ from the planning for capital budget expenditure in that:

- Planning for the operating budget is done per line item; and
- Planning for the capital budget is done per project.
11.1.2.4 Previous revenue and expenditure patterns will assist profit centre managers in setting the timing of the cash flows, but they may also be led by other factors.

11.1.3 Deviation Reporting: Operating and Capital Budget

11.1.3.1 The purpose of deviation reporting is to provide reasons for the deviations from the SDBIP and to give details of corrective measures that will be taken.

11.1.3.2 It will be considered that a deviation of operating revenue and expenditure occurred when evidence indicates the following circumstances:

- Revenue realised less than or in excess of the amount budgeted for;
- Cumulative revenue realised less than or in excess of the cumulative amount stated in the periodic planning;
- Expenditure realised less than or in excess of the amount budgeted for;
- Cumulative expenditure realised less than or in excess of the cumulative amount stated in the periodic planning; and
- Unallocated expenditure on distribution accounts.

11.1.3.3 Based on the definition of a "Vote" in terms of the MFMA, each strategic unit/department within the Municipality is considered a "Vote" and aligned to the approved MTREF, in terms of both the capital and the operating budgets.

11.1.3.4 In terms of section 28 of the MFMA, all heads of strategic units/departments will have to inform the City Manager as Accounting Officer as soon as they have become aware that any revenue budgeted for in their respective strategic units/departments, will not fully materialise or be fully collected/recovered.

11.1.3.5 The individual head of strategic unit/department is accountable to report to the City Manager and the Chief Financial Officer on a monthly, quarterly and annual basis on deviations in debtors' revenue.

11.1.3.6 Monitoring of variances for capital projects is the comparison of actual expenditure against expenditure targets set in the Service Delivery and Budget Implementation Plan (SDBIP) as well as the indicated milestones for the project. The project numbers are as reflected in the approved budget.

11.1.3.7 Internal reporting mechanism

- Each month end, every profit centre owner will submit a variance report on deviated line items to their Executive Director and their Departmental Support Services (Finance);
- Each month end every project owner will submit a variance report on project variances to their respective Executive Director and their Departmental Support Services (Finance);
- This report will then be submitted to the relevant Head of strategic unit/department.

11.1.3.8 Compulsory reporting

- Each month end, the Departmental Support Services (Finance) will report on the reasons for the variances and the envisaged corrective action to be taken utilising the information supplied by the profit centre owners/ executive directors/ managers/ head of strategic unit/department, and submit it to the Financial Services Department, Corporate Financial Sustainable Management Section, using the standard format report supplied by this section.
- Each month end, every head of the strategic unit/department will submit a deviation report to their respective departmental Portfolio Committees to assist Councillors in monitoring financial and non-financial performance against the service delivery and implementation plan.
Within 30 days of the end of each quarter, every head of the strategic unit/department will submit a report to the Council on the implementation of the budget and the financial state of affairs of their strategic unit/department.

A monthly report must be submitted to the BPMC and a quarterly report to the Mayoral Committee listing all capital budget transfers of R100 000 or more that has been approved under delegation since the last report, detailing the capital projects that have been amended and any change caused to non-financial targets. This procedure is intended to provide all elected members with advice on material budget transfers.

11.2 FUND TRANSFERS

11.2.1 Operating Budget Fund Transfers

11.2.1.1 This policy aims at empowering the respective heads of strategic units/departments to manage their respective operational budgets within the stipulations of the MFMA and to create an environment of accountability within each respective strategic unit/department.

11.2.1.2 A prerequisite will however be that all operating budget fund transfers must be authorised by the respective strategic executive director/departmental head and the respective Member of the Mayoral Committee. In the absence of the strategic executive director/departmental head, he/she may delegate the authority in this regard to a person acting on his/her behalf. In the event of a strategic unit/department not accountable to a Member of the Mayoral Committee, authorisation should be obtained from the City Manager.

11.2.1.3 This policy and all subsequent transfers will be carefully monitored by the Chief Financial Officer to ensure that all the intended transfers are within the stipulations of the proposed policy.

11.2.1.4 The Chief Financial Officer must report monthly to the Mayoral Budget Committee on all fund transfers for that month.

11.2.1.5 In order for a “vote” (Strategic Unit/Department) to transfer funds from one expenditure item to another expenditure item, a saving has to be identified within the limitations of the approved item allocations on the respective strategic unit/departmental budgets. The Vote (Strategic Unit/Department) concerned must ensure that the intended transfer amount is available against the item and must clearly indicate to which item it will be transferred. Any deviation will have to be reported to the Council in terms of sections 1, 15, 29, 32 and 70 of the MFMA.

11.2.1.6 All votes will have to ensure that the implications of the intended transfers are known and that these implications have been taken into consideration, bearing in mind their service delivery objectives and outcomes in terms of their strategic operational plans and service delivery implementation plans.

11.2.1.7 The transfer of funds in the revenue group is allowed with the exclusion of grants and debtors revenue, except in an adjustments budget or with the explicit approval of the Council in terms of section 166(3) of the Constitution.

11.2.1.8 No fund transfers will be allowed to and from:

- Reimbursements
- Refreshments to External Visitors

No fund transfers will be allowed from:

- Special projects
- Special events
- Consultant fees
* Subsistence, travelling and conference fees (national and international)
* Training
* Insurance
* SPCA
* Non capital items
* Professional services, except

when the motivations for the fund transfers to the mentioned items are approved by the Mayoral Committee.

11.2.1.9 Some of the expenditure groups are primarily controlled by the Financial Services Department owing to their nature and are therefore considered to be non-manageable by the respective strategic units/departments. Strategic Units/Departments are thus not allowed to do fund transfers with regard to the following expenditure groups, save with the explicit approval of the Council in terms of Section 160 of the Constitution and as contemplated in Section 28 of the MFMA:

- Departmental Charges (Distribution Accounts)
- Depreciation and Asset Impairment
- Finance Charges
- Assessments
- Municipal Rates and Services
- Debt Impairment.

11.2.1.10 The following expenditure groups can be fully managed by the heads of strategic units/departments within the limits of the respective group allocations. Fund transfers can therefore take place between these groups within the vote (strategic unit/department), provided that the total budget allocation for the combined groups is not exceeded, with the explicit approval of the council in terms of Section 160 of the Constitution.

- General Expenses (Other Materials, Contracted Services, Other Expenditure)
- Repairs and Maintenance, except for rehabilitation of landfill sites and quarries where no fund transfers to or from is allowed.

11.2.1.11 Fund Transfers relating to Employee Related Costs (A Group) can only be done within the group and cannot be transferred to or from another group.

11.2.1.12 No fund transfers will be allowed to and from any Distribution Accounts (ie Labour, Transport and Machinery & Equipment), owing to the fact that these accounts are charged out by means of hourly tariff rates or kilometres usage tariff. Any transfers to and from distribution accounts may be regarded as an attempt to hide operational inefficiencies. Furthermore, within the SAP system the activity based costing principles will be implemented in due course, which will effectively over time provide a management tool to monitor and control the costs of labour, vehicles, machinery and equipment in service delivery.

11.2.1.13 Strategic Units/Departments must utilise internal services to prevent double costing of goods and services available in the organisation even if the internal cost of the service is more expensive. Examples in this regard are the use of external vehicle workshops while the internal workshop has capacity to undertake the work and the hiring of equipment/vehicles while similar equipment/vehicles are not utilised fully in the same or another strategic unit/department. Should this process not be followed it will result in fruitless and wasteful expenditure as the resources of the CoT is then underutilised.

11.2.1.14 Transfers between expenditure items, within a specific distribution account within a specific profit centre, may be allowed by the Financial Services Department under special circumstances (ie to correct errors in the budget or to provide for unforeseen/unavoidable expenses for which insufficient
budget was approved), provided that valid reasons/motivations for the transfer is provided, sufficient savings are identified on other line items within the same specific distribution account and profit centre, and the further proviso that the bottom-line budget allocation for the specific distribution account is not amended (increased or reduced).

11.2.1.15 Any amendment to the approved total budget allocation of a distribution account, or the transfer of funds between distribution accounts and profit centres, shall constitute an adjustment and be required to be included in the Municipal Adjustments Budget as prescribed by Section 28 of the MFMA.

11.2.1.16 All the fund transfers that were done during the budget year will be taken into account during the following years budget process.

11.2.1.17 Fund transfers between the operational and capital budget is not allowed except for non-capital items and is only allowed during the adjustments budget process.

11.2.1.18 If a journal is processed to the effect that not enough funds are available, the journal will be reversed by the Budget Office/Accounting Services.

11.2.1.19 No fund transfers from Remuneration of Councillors is allowed.

11.2.2 Capital Budget Fund Transfers

11.2.2.1 Considering the definition of a vote in the MFMA (refer to Definitions of Key Terms), it is proposed that each strategic unit/department within the Municipality be considered a vote and that any further reference to vote/votes be considered to be one or more of the following strategic units/departments:

- Office of the Executive Mayor, Chief Whip, Speaker and City Manager
- Financial Services
- Corporate and Shared Services
- City Planning
- Economic Development
- Community Safety
- Emergency Services
- Health and Social Development
- Sport, Recreation, Arts and Culture
- Housing and Sustainable Human Settlement Development
- Agriculture and Environmental Management
- Transport and Roads
- Public Works and Infrastructure Development

11.2.2.2 Although all individual IDP Capital Projects of the relevant Strategic Unit/Department ("Vote") form the Capital Programme for that particular Vote, the transfer of funds between projects within a programme will only be allowed within the following rules:

11.2.2.2.1 Project registration and prioritisation continues to be executed via the IDP needs register at IDP project level.

11.2.2.2.2 Once the IDP prioritisation process is finalised, the necessary budgetary appropriations are applied, within the base-line allocations and affordability levels determined.

11.2.2.2.3 The individual IDP projects are then grouped together as related programmes, per Strategic Unit/Department (Vote).
11.2.2.4 The SAP Project System provides for the necessary controls at programme level to ensure a high level of accountability. The programmes would typically be broken down further into work breakdown structures (WBS) on IDP project level, to facilitate project management accountability and execution.

11.2.2.5 Budgetary allocations are approved at Capital Programme Level (total allocation for the Strategic Unit/Department or Vote) and are locked in the SAP Project System at programme level.

11.2.2.6 Further cascading of budgetary allocations to individual WBS's within the programme is possible in SAP and can also be locked at WBS level.

11.2.2.7 The Strategic Executive Officer must ensure that any proposed amendment to the capital budget be considered in the context of the City Scorecard and SDBIP targets. The proposed fund transfer needs to be consulted with the respective Member of the Mayoral Committee.

11.2.2.8 The relevant Member of the Mayoral Committee must sign the documented fund transfer or amendment on the required format and he/she must give careful consideration on the proposed transfer implication on the service delivery.

11.2.2.9 The IDP Office will render formal comments with recommendation on the proposed fund transfer taking into consideration imperatives of the 5 year plan, city development Model as well as operational implications.

11.2.2.10 The Mayoral Committee has to consider the proposed fund transfer for approval once the documented fund transfer or amendment on the required format had been signed by the Strategic Executive Director, the City Manager as Accounting Officer and the relevant Member of the Mayoral Committee and the IDP Office comments had been included.

11.2.2.11 It is important that the Financial Services Department maintain control over any funds transfers, but it is equally important that the IDP Office recommends approval of any consequential changes in priorities.

11.2.2.12 Fund transfers would therefore be done in a prescribed format (formal report) between individual IDP projects (WBS Level 2), within the approved Capital Programme (Vote), within the approved Funding Source, to facilitate the effective implementation of the capital programme.

11.2.2.13 Fund transfers between the operational and capital budget is not allowed except for non-capital items and which is only allowed during the adjustments budget process.

11.2.2.14 No fund transfers to be allowed to and from capital funded from operating projects to any other capital projects.

11.3 ADJUSTMENTS BUDGET

11.3.1 A municipality has to revise an approved annual budget through an adjustments budget. The adjustments budget must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue. It may also appropriate additional revenues that have become available, or it may authorise certain other adjustments elucidated in the Act. Only the mayor may table an adjustments budget in the municipal council. The adjustment budget must be submitted simultaneously with the mid-year review on or before 25 January each year.

11.3.2 The Executive Mayor may within 60 days after unforeseeable and unavoidable expenditure was incurred for the purpose of an emergency or other exceptional circumstance and for which no provision was made in an approved budget, table an adjustments budget.
11.3.3 In terms of the MFMA, essentially three conditions can be defined necessitating an adjustment budget, namely:

- Under-collection of revenue;
- Emergency or other exceptional circumstances; and
- Mid-term budget review.

11.3.3.1 Under-collection of Revenue

11.3.3.1.1 The Accounting Officer must ensure that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget or in the service delivery budget implementation plan.

11.3.3.1.2 Should a material under-collection of revenue become apparent, it will be necessary for the relevant strategic unit/department to revise the budgeted revenue levels to a realistic forecast. It is also necessary to revise the expenditure levels associated with this revenue downwards in proportion to the revenue budgeted. This could be undertaken with the mid-term budget review which could result in an adjustment budget.

11.3.3.1.3 Should the under-collection however be considered to be material of nature, it will be necessary for the strategic unit/relevant department to report such under-collection to the accounting officer as a matter of urgency to consider implementing corrective measures. Materiality is normally considered to be 10% or more of an individual item measured against the periodic planning for that item. In some cases the magnitude of the amount concerned may suggest a deviation of less than 10%.

11.3.3.2 Emergency or other exceptional circumstances

11.3.3.2.1 The Executive Mayor may in case of an emergency or other exceptional circumstances authorise unforeseeable and unavoidable expenditure for which no provision was made in the annual approved budget of the municipality.

11.3.3.3 Mid-term Budget Review

11.3.3.3.1 Municipalities are required to assess their performance during the first half of the financial year based on their respective services delivery targets, their performance indicators and financial performance. The assessment has to take place on or before 25th January each year according to Section 72 of the MFMA.

11.3.3.3.2 The assessment outcomes may or may not necessitate budget adjustments. In instances where an adjustments budget is necessitated, an adjustments budget has to be prepared and submitted to the Executive Mayor for consideration and tabling in the Municipal Council as well as recommend revised projections for revenue and expenditure to the extent that may be necessary (Section 69 of 72). It is in this vein that the two processes run in tandem and require finality on the date instructed by the Act, on or before 25th January each year.

11.3.3.3.3 This policy framework is not applicable to situations referred to in Section 31 of the MFMA. Section 31 applies to capital projects approved with multi-year allocations. It allows a 20% increase in a single year’s appropriation, provided the increase is funded by a reduction in the following year’s appropriation. The MFMA specifies the procedure to be followed, which includes notification to the Provincial Treasury and the Auditor-General.

11.3.3.3.4 In the event of adjustments to the distribution accounts during the Adjustments Budget process, the strategic unit/department concerned must indicate the corresponding effect that the adjustments will have on the secondary costs in the Repairs and Maintenance group of expenditure.
11.3.3.4 Procedural application

11.3.3.4.1 The following administrative procedure will have to be adhered to in terms of the three classifications as defined and explained under the adjustment (section 11.3.3). In the event of an emergency or exceptional circumstance occurring during the first four months of the financial year (July to October), the following procedure shall be adhered to:

11.3.3.4.2 When the relevant or affected senior management becomes aware of an emergency or exceptional circumstances occurring, he or she should:

11.3.3.4.2.1 Immediately inform the Member of Mayoral Committee and the Accounting Officer/City Manager of the emergency or exceptional circumstances that occurred;

11.3.3.4.2.2 Together with the Member of Mayoral Committee; the Accounting Officer and the Chief Financial Officer must convene an urgent meeting to determine:

- The extent of the emergency or exceptional circumstances;
- The financial implications thereof;
- The urgency and consequences of actions to be taken;
- Whether or not the emergency or exceptional circumstances can be accommodated within the allocations of the approved budget vote;
- Whether or not the emergency or exceptional circumstances would necessitate an amendment to the approved budget; and
- Whether or not the emergency or exceptional circumstances may be dealt with during the mid-term budget and performance review.

11.3.3.4.3 The relevant or affected senior management must ascertain and conclude that the emergency or exceptional circumstances cannot be managed or accommodated within allocated budget allocations by way of known savings, reprioritisation of expenditure, operational gains or existing delegations eg Fund Transfer Policy.

11.3.3.4.4 Should this be the case, the relevant senior management must compile a report, in a the prescribed format, and subsequently submit the report to the Member of the Mayoral Committee Accounting Officer/City Manager for evaluation in consultation with the Chief Financial Officer to determine whether a exceptional Adjustment Budget is necessary.

11.3.3.4.5 If not, the issue must be held in abeyance until the mid-term budget and performance review to be undertaken in November, December and January which could result in an Adjustments Budget being tabled during January/February of that particular financial year.

11.3.3.4.6 Should the issue (emergency or exceptional circumstance) necessitate the tabling of an exceptional Adjustment Budget, as to be determined by the Accounting Officer/City Manager in consultation with the Chief Financial Officer, the Accounting Officer/City Manager must advise the Executive Mayor as a matter of urgency.

11.3.3.4.7 After considering the relevant facts, the Executive Mayor can authorise the related expenditure in terms of Section 29 of the MFMA. The Executive Mayor must however table the proposed adjustment at the next Council Meeting, and should the Adjustments Budget not be passed within 60 days of the incurred expenditure, the expenditure can be considered unauthorised and Section 32 of the MFMA applies. If expenditure is deemed to be unauthorised, as a result of non-acceptance by the Council, Section 32 applies where there is a potential for political office bearers, the accounting officer or other officials being held liable for the expenditure.
11.3.3.5 In the event of an emergency or exceptional circumstance occurring during the months of November, December or January of a particular financial year the following procedure shall be adhered to:

- The issue shall be raised during the mid-term budget and performance review of that particular strategic unit/department.
- Subsequently be included in the Adjustment Budget.

11.3.3.6 In the event of an emergency or exceptional circumstance occurring after the mid-term review and adjustments budget was finalized, the same procedure as stated for the first four months of the financial year, shall apply.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>SSBP</td>
<td>Five-year Strategic and Business Plan</td>
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<td>ASD</td>
<td>Alternative Service Delivery</td>
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<td>ASGISA</td>
<td>Accelerated and Shared Growth Initiative</td>
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<td>BO</td>
<td>Budget Office</td>
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<td>BP</td>
<td>Budget Process</td>
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<td>BS</td>
<td>Balanced Scorecard</td>
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<td>CBP</td>
<td>Corporate and Business Planning</td>
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<td>CDS</td>
<td>City Development Strategy</td>
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<tr>
<td>CDS, IDP &amp; OP</td>
<td>City Development Strategy, Integrated Development Plan and Operational Plan</td>
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<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
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<tr>
<td>CFSP</td>
<td>Capital and Financing Strategy Project</td>
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<tr>
<td>CM</td>
<td>City Manager</td>
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<tr>
<td>CPIX</td>
<td>Consumer Price Index (excluding interest cost on mortgage bonds)</td>
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<td>CoT</td>
<td>City of Tshwane Metropolitan Municipality</td>
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<td>DMC</td>
<td>Developmental Management Cycle</td>
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<td>DS</td>
<td>Development Strategy</td>
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<td>DoRA</td>
<td>Division of Revenue Act</td>
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<td>GAMAP</td>
<td>Generally Accepted Municipal Accounting Practice</td>
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<td>GDS</td>
<td>Gauteng Development Strategy</td>
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<td>GM</td>
<td>General Manager</td>
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<td>GPG</td>
<td>Gauteng Provincial Government</td>
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<td>GRAP</td>
<td>Generally Recognised Accounting Practice</td>
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<td>IDP</td>
<td>Integrated Development Plan</td>
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<td>IGR</td>
<td>Intergovernmental Relations System</td>
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<td>IPPP</td>
<td>Integrated Plans/Policies/Programmes</td>
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<td>Local Economic Development</td>
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<td>Long-term Financial Strategy</td>
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<td>Municipal Cost Index</td>
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<td>Municipal Finance Management Act, 2003</td>
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<td>Municipal Infrastructure Grant</td>
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<td>MIIF</td>
<td>Municipal Integrated Infrastructure Investment Framework</td>
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<td>MMC</td>
<td>Member of Mayoral Committee</td>
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<td>Municipal Property Rates Act</td>
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<td>Medium-term Budget Committee</td>
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<td>National Treasury</td>
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<td>OITPS</td>
<td>One Integrated Transaction Processing System</td>
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<td>Performance Management System</td>
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<td>Project Management Unit</td>
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<td>Property, Plant and Equipment</td>
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<td>Regional Electricity Distributor</td>
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<td>Regional Services Council</td>
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<td>Service Delivery and Budget Implementation Plan</td>
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<td>Strategic Executive Officer</td>
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<tr>
<td>TIDP</td>
<td>Tshwane Integrated Development Plan</td>
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<td>VAT</td>
<td>Value Added Tax</td>
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