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12. FINANCE DEPARTMENT (FINANCIAL MANAGEMENT DIVISION)
ADJUSTMENTS BUDGET POLICY FRAMEWORK
From the Portfolio Committee: Finance and Audit: 9 June 2004)

1. PURPOSE

The purpose of this report is to propose a policy framework in terms of the Municipal Finance Management Act 2003 (Act 56 of 2003) for obtaining approval for amendments to the approved operational and capital budget in accordance with the relevant legislative "municipal adjustments budgets" provisions.

2. BACKGROUND

The promulgation of the Municipal Finance Management Act 2003 (Act 56 of 2003) has brought about various key changes in the management of Local Government Finance in South Africa.

The Fund Transfer Policy, as approved by Council on 27 November 2003 was compiled taking into consideration the relevant requirements of the MFMA in regard to sound and effective financial management. This policy established a framework by which departmental heads can manage their respective departmental budgets, within certain limitations ensuring effective financial management at all times.

In the past, reports were submitted to Council on an ad-hoc basis for amendment/adjustment of the budget by Departments when the proposed amendment/adjustment was outside the limitations of the fund transfer policy or delegations of the particular departmental head. This procedure will however be in contravention of the spirit of the MFMA as it would result in regular Adjustments Budgets being tabled at Council for consideration and approval. Further, National Treasury has frequently reiterated that regular Adjustment Budgets may be considered evidence of poor financial management by municipalities. Hence it is necessary that a comprehensive and clear framework for the adjustments of the approved budget be clearly determined and approved by Council.

3. APPROVED 2004/05 MEDIUM-TERM BUDGET

The adoption and approval of the 2004/05 medium-term budget by Council on 27 May 2004 is a sound departure point for this Municipality in terms of implementing the legislative requirements of the MFMA.

Recommendation 6 of the report approved by Council on 27 May 2004 "2004/05 MEDIUM-TERM BUDGET FOR THE CITY OF TSHWANE METROPOLITAN MUNICIPALITY" reads as follows:

(Unaltered)/...

(Unaltered)

"6. *That the approved 2004/05 budget only be revised in terms of Section 28 of the Municipal Finance Management Act as explained in item 9 of the report."*

Item 9 referred to in the above-mentioned report sought to interpret and unpack the philosophical underpinnings and possible intent of Section 28 and stated the following:

(Unaltered)

"The approval of this medium-term budget is introducing a new regime in budget management and control. The key aims of finance management reforms and the MFMA include:

- *'Strategic' influence over the financial planning process by the Council, characterised by the adoption of 'votes' at a macro level and delegating 'day-to-day' financial management to suitable levels of management.*

- *Community and management certainty about budget outcomes. This certainty is achieved through a medium and longer term financial framework combined with irregular budget amendment unless there are compulsive reasons for change.*

- *A legislative framework that focuses on a mid-year review of the budget by the Accounting Officer (Municipal Manager), but allowing and requiring for an adjustments budget should circumstances demand it. These circumstances are expected to be extraordinary events, with any administrative budget change managed within a management delegation process.*

The 2004/05 medium-term budget should only be amended by:

- *Departmental management authorising offsetting operating budget variations within the votes delegated to them, essentially allowing variations with departmental budget 'groups' but not across budget groups. Therefore, for example, a Departmental/Strategic Unit Head could transfer allocations within an expenditure group such as 'Salaries', but could not authorise a transfer from departmental 'Materials' to 'Salaries'. It should be especially noted that each capital project also represents a vote requiring Council approval to amend.*

- *A mid-year review by the Accounting Officer in accordance with the MFMA, due for completion by 25 January, which would possibly culminate in an adjustments budget being presented to Council in the month following the review, if required.*

- *An adjustments budget in terms of the provisions of section 28 of the MFMA brought to Council for approval in circumstances where extraordinary events require a fundamental and urgent change to budget. It is unlikely that this mechanism would be used except under the rarest of circumstances, and is not to be viewed as a substitute for poor financial planning and management."*

It/...

It is also important to note that the draft 2004/05 medium-term budget of the City of Tshwane Metropolitan Municipality was tabled by the Executive Mayor at a Special Council meeting on 11 March 2004, in accordance with Section 16(2) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) and applicable National Treasury finance management reform requirements. The aforementioned process offered all stakeholders and officials a reasonable opportunity to ensure that all inputs, revenue sources, projects, expenditure requests, etc. were incorporated into the final budget approved by Council.

4. MUNICIPAL FINANCE MANAGEMENT ACT

The following are the relevant provisions pertaining to "municipal adjustments budgets" in terms of the MFMA.

Municipal adjustments budgets

(Unaltered)

"28. (1) A municipality may revise an approved annual budget through an adjustments budget.

(2) An adjustments budget—

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

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

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

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

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

(f) may correct any errors in the annual budget; and

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

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

(4) Only the mayor may table an adjustments budget in the municipal council, but an adjustments budget in terms of subsection (2) (b) to (g) may only be tabled within any prescribed limitations as to timing or frequency.

(5) When/...

(5) When an adjustments budget is tabled, it must be accompanied by—

(a) an explanation how the adjustments budget affects the annual budget;

(b) a motivation of any material changes to the annual budget;

(c) an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and

(d) any other supporting documentation that may be prescribed.

(6) Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.

(7) Sections 22(b), 23(3) and 24(3) apply in respect of an adjustments budget, and in such application a reference in those sections to an annual budget must be read as a reference to an adjustments budget."

Unforeseen and unavoidable expenditure

(Unaltered)

"29. (1) The mayor of a municipality may in emergency or other exceptional circumstances authorise unforeseeable and unavoidable expenditure for which no provision was made in an approved budget.

(2) Any such expenditure—

(a) must be in accordance with any framework that may be prescribed;

(b) may not exceed a prescribed percentage of the approved annual budget;

(c) must be reported by the mayor to the municipal council at its next meeting; and

(d) must be appropriated in an adjustments budget.

(3) If such adjustments budget is not passed within 60 days after the expenditure was incurred, the expenditure is unauthorised and section 32 applies."

Further, Section 69(2) and 72 of the MFMA deals specifically with the responsibility of the of the accounting officer to prepare an adjustments budget and submit it to the mayor for consideration and tabling, as well the assessment of the performance of the municipality by the 25 January of each year, and subsequently make recommendations as to whether an adjustments budget is necessary (mid-term budget review).

5. POLICY/...

5. POLICY FRAMEWORK

In terms of the above quoted sections of the MFMA and legislative prescriptions, it becomes clear that any amendment outside of the delegated authority to management in terms of the approved budget will be considered to be an adjustment to the budget, and hence certain requirements and obligations have to be adhered to by the CTMM and the Accounting Officer. Furthermore, a mid-term budget and performance review is essential and that in terms of the outcomes of this review, an adjustments budget might have to be undertaken by the Accounting Officer.

In terms of the MFMA it is also clear that a number of prescribed frameworks have to be developed, and it therefore needs to be noted that the development of these frameworks can essentially impact on the proposed Adjustment Budget policy framework in the future.

The policy framework is <u>not</u> 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.

In terms of the relevant sections of the MFMA, the following classifications/categories in terms of adjustments budgets can be defined:

- Under collection of revenue and adjustment of expenditure
- Appropriation additional of revenues
- Authorising of unforeseeable and unavoidable expenditure
- Authorising the utilisation of projected savings in one vote towards the spending under another
- Correction of any errors in the annual budget
- Provide for any other expenditure within a prescribed framework

6. CONCLUSION

In conclusion, from the legislative prescriptions as contained in the Act it becomes clear that the above mentioned policy framework is essential for the daily operations of this Municipality. It will therefore be necessary for the development of a comprehensive administrative procedure for the management of the Adjustments Budget Policy Framework.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

The proposed policy framework set out in the report is in line with the requirements of the Municipal Finance Management Act, 2003 (Act 56 of 2003) and National Treasury guidelines, and gives effect to efficient, effective and economical financial management of municipal resources, in line with the municipality's service delivery and budget implementation plan, key priority issues, service delivery objectives and outcomes as set out in the departmental operational/business plans.
We therefore support the recommendations to the report.

8. COMMENTS OF THE HEAD: LEGAL AND SECRETARIAL SERVICES

It should be noted that although the Mayor of a municipality may in emergency or other exceptional circumstances authorise unforeseeable and unavoidable expenditure for which no provision was made in an approved budget, such expenditure must be reported to the municipal Council at its next meeting. If such adjustments budget is not passed within 60 days after the expenditure was incurred, the expenditure will be regarded as unauthorised with severe implications to the person who authorised same.

Cognisance should further be taken of Section 160(3)(b) of the Constitution of the RSA, 1996 which provides that all budgetary matters are determined by a decision taken by a Municipal Council with a supporting vote of a majority of its members.

The recommendations are supported.

RESOLVED:

1. That cognisance be taken of the proposed policy framework in terms of the Municipal Finance Management Act, 2003 (Act 56 of 2003).

2. That the Accounting Officer/Municipal Manager ensures compliance by senior management to the policy framework.

3. That the detailed administrative procedure in terms of the Adjustments Budget Policy Framework be developed in line with National Treasury prescriptions and submitted to the Municipal Manager/Accounting Officer for approval.

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