

4 January 2011

## **GREATER TZANEEN MUNICIPALITY**

### **FINANCE DEPARTMENT**

### **ADJUSTMENT BUDGET POLICY**

#### 1. INTRODUCTION

The purpose of this Policy is to establish a policy framework in terms of the Municipal Finance Management Act 2003 (Act 56 of 2003) to guide amendments to the approved operational and capital budget in accordance with the relevant legislative "Municipal Adjustments Budgets" provisions.

#### 2. OBJECTIVES

- 2.1 To manage any adjustment to the approved operational and capital budgets in such a manner that it will enhance the quality of life of the citizens; and
- 2.2 To ensure that all adjustments to the approved budget be done in accordance with legislation; and
- 2.3 To manage the financial affairs of the municipality in such a manner that sufficient cash resources are available to finance the adjustments to the approved budget of the Municipality.

#### 3. LEGISLATION

The following are the relevant provisions pertaining to "Municipal Adjustments Budgets" in terms of the MFMA.

##### ***MUNICIPAL ADJUSTMENTS BUDGETS***

***"28. (1) A municipality may revise an approved annual budget through an adjustment 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, but only to revise or accelerate spending programmes already budgeted for;***

(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 could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;

(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 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.”

#### **UNFORSEEN AND UNAVOIDABLE EXPENDITURE**

“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 accounting officer to prepare and adjustments budget and submit it to the Mayor for consideration and tabling, as well as the assessment of the performance of the municipality by the 25<sup>th</sup> January of each year, and subsequently make recommendations as to whether an adjustments budget is necessary (mid-term budget review).

#### 4. SCOPE OF THE POLICY

The policy deals with:

- 4.1 Legislation regarding adjustment budgets
- 4.2 Responsibility / Accountability
- 4.3 Management of cash resources
- 4.4 General accounting practices

#### 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 Municipality. Furthermore, a mid-term budget and performance review is essential and that in terms of the outcomes of that 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 impact on the proposed Adjustment Budget Policy framework in the future.

The 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. 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 will result in the drafting, submission and approval of an Adjustment Budget:

- Under collection of revenue and adjustment of expenditure.
- Appropriation of additional 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.

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.