



BUDGET MANAGEMENT AND OVERSIGHT POLICY (POLICY NUMBER 21144G)

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BUDGET MANAGEMENT AND OVERSIGHT POLICY

DIRECTORATE: FINANCE

DEPARTMENT: BUDGETS

Table of Contents

CONTENTS

1.	DEFINITIONS AND ABBREVIATIONS	3
2.	PROBLEM STATEMENT	4
3.	DESIRED OUTCOME	4
5.	ROLE PLAYERS AND STAKEHOLDERS	4
6.	REGULATORY CONTEXT.....	5
7.	POLICY DIRECTIVE DETAILS	11
8.	IMPLEMENTATION, EVALUATION AND REVIEW	16

1. **DEFINITIONS AND ABBREVIATIONS**

Accounting Officer: means the municipal manager appointed as such by the municipal Council in terms of section 82 of the Municipal Structures Act and as contemplated in Chapter 8 of the MFMA;

Audit Committee: means an independent advisory body which is appointed by the municipal Council in terms of section 166 of the MFMA to –

- (a) advise the municipal Council, its Political Office Bearers, the Accounting officer and management staff of the municipality on matters listed in section 166 (2)(a);
- (b) review the annual financial statements to advise the municipal Council of its efficiency, effectiveness and overall compliance with relevant legislation;
- (c) respond to municipal Council on any issues raised by the Auditor-General;
- (d) carry out investigations into the financial affairs of the municipality; or
- (e) perform other functions as may be prescribed.

CFO: means the Chief Financial Officer designated to the budget and treasury office of the municipality and who is accountable to the Accounting Officer of the municipality as contemplated in chapter 9 of the MFMA;

Division of Revenue Act (DORA) : means the Act of Parliament which must be enacted in terms of section 214(1) of the Constitution;

Executive Mayor : means the person elected as the executive mayor of the municipality in terms of section 55 read with Schedule 3 of the Municipal Structures Act;

IDP : means the Integrated Development Plan of the City of Cape Town which sets out the strategic and budget priorities adopted by the Council of the City of Cape Town in terms of section 25(1) of the Municipal Systems Act;

MAYCO : Mayoral Committee established in terms of Part 1 of Chapter 4 of the Municipal Structures Act;

MFMA : Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

Municipal Council : means the municipal council of the City of Cape Town as contemplated in section 18 of the Municipal Structures Act;

Municipal Structures Act: means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);

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

MBRR means the Municipal Budget and Reporting Regulations made in terms of section 168 of the MFMA (Act No. 56 of 2003); and

National Treasury (NT): means the National Treasury established by section 5 of the Public Finance Management Act, 1999 (Act No.1 of 1999).

2. PROBLEM STATEMENT

Section 7 of the MBRR requires that the municipal manager of a municipality must prepare, or take all reasonable steps to ensure the preparation of the budget-related policies of the municipality in accordance with the legislation applicable to those policies for tabling in the municipal council by the applicable deadline specified by the Executive Mayor in terms of section 21(1)(b) of the Act. Section 7 (1)(m) specifies that this must include a policy related to budget implementation and monitoring specifically dealing with management and oversight.

3. DESIRED OUTCOME

This policy will specify what the responsibilities of all the role players will be regarding budget management and oversight.

4. STRATEGIC FOCUS AREA

The strategic focus areas of the City are enshrined in the City's Integrated Development Plan (IDP) and are known as the five pillars. The pillars are namely, the opportunity city, the well-run city, the safe city, the caring city and the inclusive city. This policy supports the pillar 5.3, the well-run city.

The underlying tenets of the well-run city are the principles of openness, due process and sound financial management. The implementation of this policy will enhance the principles of sound financial management and will contribute to Cape Town being a corruption-free, transparent and efficient city. In all the city's programmes, strict monitoring should be adhered to in order to ensure that the needs of constant service delivery are always being met. Only by being completely open and through constant monitoring can the city ensure that it delivers the most to our citizens.

5. ROLE PLAYERS AND STAKEHOLDERS

Internal oversight:

City of Cape Town including all its internal structures and officials

External oversight:

Provincial Government of the Western Cape and National Government (including National Treasury)

6. **REGULATORY CONTEXT**

6.1 **Oversight by Council**

Section 16 of the MFMA provides that-

- (a) *The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.*
- (b) *In order to comply with the abovementioned provision, the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.*

Section 24 of the MFMA provides that -

- (a) *The municipal council must at least 30 days before the start of the budget year consider approval of the annual budget.*
- (b) *An annual budget must be approved before the start of the budget year by adoption by the municipal council of the draft resolution referred to in section 17(3).*

6.2 **Oversight by Executive Committee (MAYCO)**

Section 44(2), (3) and (4) of the Municipal Structures Act , states that *The executive committee must –*

- (a) *Identify the needs of the municipality,*
- (b) *Review and evaluate those needs in order of priority,*
- (c) *Recommend to the municipal council strategies, programmes and services to address priority needs, and*
- (d) *Recommend or determine the best methods, including partnership and other approaches, to deliver those strategies, programmes and services to the maximum benefit of the community*

The executive committee in performing its duties must -

- (a) *Identify and develop criteria in terms of which progress in the implementation of the strategies, programmes and services can be evaluated,*
- (b) *Evaluate progress against the key performance indicators,*
- (c) *Review the performance of the municipality,*
- (d) *Monitor the management of the municipality's administration in accordance with the policy directions of the municipal council,*
- (e) *Oversee the provision of services to communities in the municipality in a sustainable manner,*
- (f) *Perform such duties and exercise such powers as the council may delegate to it ,*
- (g) *Annually report on the involvement of communities and community organisations in the affairs of the municipality, and*

- (h) *Ensure that regard is given to public views and report on the effect of consultation on the decisions of the council*

An executive committee must report to the municipal council on all decisions taken by the committee.

6.3 Oversight by Audit Committee

Section 166 of the MFMA reads, states that -

An audit committee is an independent advisory body which must advise the municipal council on matters relating to –

- i) Internal financial control and internal audits,*
- ii) risk management,*
- iii) accounting policies,*
- iv) the adequacy, reliability and accuracy of financial reporting and information,*
- v) performance management,*
- vi) effective governance,*
- vii) compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation,*
- viii) performance evaluation, and*
- ix) any other issues referred to it by the municipality or municipal entity*

6.4 Oversight by Budget Steering Committee

Section 4 of the MBRR states that -

The mayor of a municipality must establish a budget steering committee to provide technical assistance to the mayor in discharging the responsibilities as set out in section 53 of the Act.

6.5 General Oversight by the Mayor

Section 52 of the MFMA ,states that *The mayor of a municipality -*

- (a) Must provide general political guidance over the fiscal and financial affairs of the municipality*
- (b) In providing such general political guidance, may monitor and, to the extent provided in this Act, oversee the exercise of responsibilities assigned in terms of this Act to the accounting officer and the chief financial officer, but may not interfere in the exercises of those responsibilities*
- (c) Must take all reasonable steps to ensure that the municipality performs its constitutional and statutory functions within the limits of the municipality's approved budget*
- (d) 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

6.6 Budget Processes : Oversight by the Mayor

Section 53 of the MFMA reads, inter alia, as follows:

- (1) *The mayor of a municipality must -*
 - (a) *Provide general political guidance over the budget process and the priorities that must guide the preparation of a budget,*
 - (b) *Co-ordinate the preparation of the annual budget and determine how the integrated development plan is to be taken into account or revised for the purposes of the budget,*
 - (c) *Take all reasonable steps to ensure :*
 - i) *That the municipality approves its annual budget before the start of the budget year, and*
 - ii) *That the municipality's service delivery and budget implementation plan is approved by the mayor within 28 days after the approval of the budget.*
- (2) *The 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.*
- (3) *The mayor must ensure that the revenue and expenditure projections for each month and the service delivery targets and performance indicators for each quarter, as set out in the service delivery and budget implementation plan, are made public no later than 14 days after the approval of the service delivery and budget implementation plan.*

6.7 Oversight done with Monthly Budget Statements

Section 71 (1) of the MFMA states that -

The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:

- (a) *Actual revenue, per revenue source*
- (b) *Actual borrowings*
- (c) *Actual expenditure, per vote*
- (d) *Actual capital expenditure, per vote*
- (e) *The amount of any allocations received*
- (f) *Actual expenditure on those allocations, excluding expenditure on -*
 - i) *Its share of local government equitable share*
 - ii) *Allocations exempted by the annual Division of Revenue Act*

- from compliance with this paragraph*
- (g) *When necessary, an explanation of -*
- i) Any material variances from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote*
 - ii) Any material variances from the service delivery and budget implementation plan; and*
 - iii) Any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget"*

6.8 Oversight done with Mid-Year Budget and Performance Assessment

Section 72 of the MFMA , states that -

- (1) *The accounting officer of a municipality must by 25 January of each year –*
- (a) Assess the performance of the municipality during the first half of the financial year, taking into account-*
 - i) The monthly statements referred to in section 71 for the first half of the financial year,*
 - ii) The municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan,*
 - iii) The past year's annual report, and progress on resolving problems identified in the annual report,*
 - iv) The performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities,*
 - (b) Submit a report on such assessment to -*
 - i) The mayor of the municipality*
 - ii) The National Treasury*
 - iii) The relevant provincial treasury*
- (2) *The accounting officer must, as part of the review -*
- (a) Make recommendations as to whether an adjustments budget is necessary, and*
 - (b) Recommend revised projections for revenue and expenditure to the extent that this may be necessary.*
-

6.9 Oversight role of Chief Financial Officer (CFO)

Section 81 of the MFMA states that –

The CFO of a municipality must assist the accounting officer in the administration of the municipality's bank accounts and in the preparation and implementation of the municipality's budget. The CFO must also perform such budgeting, accounting, analysis, financial reporting, cash management, debt management, financial management, review and other duties as may in terms of section 79 of the MFMA be delegated by the accounting officer to the CFO.

6.10 Oversight role of Portfolio Committees and Sub-Councils

Section 59 of the Municipal Systems Act states that –

A municipal council must develop a system of delegation that will maximise administrative and operational efficiency and provide for adequate checks and balances, and, in accordance with that system, may, inter alia –

- *Delegate appropriate powers to any of the municipality's other political structures, political office bearers, councillors or staff members,*
- *Instruct any such political structure, political office bearer, councillor or staff member to perform any of the municipality's duties*

System of Delegations

The system of delegations at the City of Cape Town has been compiled in accordance with the requirements of section 59 of the Systems Act and such system is aimed at maximizing administrative and operational efficiency and provides for adequate checks and balances by delegating appropriate powers, functions and duties to, inter alia:

- the section 79 Portfolio Committees
- the Sub-councils

Section 79 Portfolio Committees

Acting in terms of section 59 of the Systems Act, Council, in its system of delegations, delegates powers, functions and duties to the Portfolio Committees within its functional areas including the power to sub delegate any of their delegated powers, functions and duties.

These powers include, inter alia,

- Monitoring the implementation of Council's IDP, budget, business plans, strategic objectives, policies and programmes and report herein to the Executive Mayor.

Sub-councils

The terms of reference of Sub-councils are:

- to make recommendations to Council on any matter affecting its area of jurisdiction;
- to exercise any power, duty or function delegated by Council, and
- to exercise any power, duty or function conferred upon it in terms of the Sub-council By-law

Acting in terms of section 59 of the Systems Act, Council, in its system of delegations, delegates the following powers, functions and duties to Sub- councils including the power to sub delegate any of their delegated powers, functions and duties to members of the municipal staff only in terms of section 17 the Cape Town Sub-council By-law 2003, inter alia:

- To monitor the implementation of Council's budget, business plans, strategic objectives, policies and programmes.

6.11 External Oversight by National Treasury

Chapter 2 - Supervision over Local Government Finance Management

S5 (2) of the MFMA states that National Treasury may, inter alia:

- *monitor the budgets of municipalities to establish whether they*
 - *are consistent with the national government's fiscal and macro- economic policy*
 - *comply with chapter 4 (municipal budgets)*
- *monitor the implementation of municipal budgets, including their expenditure, revenue collection and borrowing to promote good budget and fiscal management by municipalities.*

Chapter 4 - Municipal Budgets

S23 (3) of the MFMA states that:

National Treasury may issue guidelines on the manner in which municipal councils should process their annual budgets, including guidelines on the formation of a committee of the council to consider the budget and to hold public hearings.

S24 (3) states that:

The accounting officer of a municipality must submit the approved annual budget to the National Treasury and the relevant provincial treasury.

6.12 External Oversight by Provincial Treasury

Chapter 2 - Supervision over Local Government Finance Management

S5 (4) of the MFMA states that a provincial treasury must, inter, alia:

- *monitor the preparation of their budgets by municipalities in the province*
- *monitor the monthly outcome of those budgets*

S24 (3) states that the accounting officer of a municipality must submit the approved annual budget to the National Treasury and the relevant provincial treasury.

7. POLICY DIRECTIVE DETAILS

7.1 Oversight responsibility of Council

The council of the City of Cape Town must approve the annual budget for the municipality before the start of that financial year. Therefore the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year

7.2 Oversight responsibility of Executive Committee

The executive committee must provide an oversight role by performing the following tasks –

- Identify the needs of the municipality
- Review and evaluate those needs in order of priority
- Recommend to the municipal council strategies, programmes and services to address priority needs
- Recommend or determine the best methods, including partnership and other approaches, to deliver those strategies, programmes and services to the maximum benefit of the community
- Identify and develop criteria in terms of which progress in the implementation of the strategies, programmes and services can be evaluated
- Evaluate progress against the key performance indicators
- Review the performance of the municipality
- Monitor the management of the municipality's administration in accordance with the policy directives of the municipal council
- Oversee the provision of services to communities in the municipality in a sustainable manner

- Perform such duties and exercise such powers as the council may delegate to it
- Annually report on the involvement of communities and community organisations in the affairs of the municipality
- Ensure that regard is given to public views and report on the effect of consultation on the decisions of the council

7.3 Oversight responsibility of Audit Committee

The Audit Committee must provide an oversight role by advising the municipal council on matters relating to:

- Internal financial control and internal audits
- Risk management
- Accounting policies
- The adequacy, reliability and accuracy of financial reporting and information
- Performance management
- Effective governance
- Compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation
- Performance evaluation

7.4 Oversight responsibility of Budget Steering Committee (BSC)

The Budget Steering Committee must assist the mayor in providing general political guidance over the budget process and the priorities that must guide the preparation. The Committee must also assist the mayor in exercising his/her responsibilities as set out in section 53 of the MFMA.

7.5 Oversight responsibility of the Executive Mayor

7.6

The Executive Mayor must:

- (a) Monitor and 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) Submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality
- (d) Check 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
- (f) Provide general political guidance over the fiscal and financial affairs of the municipality
- (g) Co-ordinate the preparation of the annual budget and determine how the integrated development plan is to be taken into account or revised for the purposes of the budget
- (h) Take all reasonable steps to ensure that the municipality approves its annual budget before the start of the budget year and that the municipality's service delivery and budget implementation plan is approved by the mayor within 28 days after the approval of the budget
- (i) Promptly report to the municipal council and the MEC for finance in the province any delay in the tabling of an annual budget
- (j) Ensure that the revenue and expenditure projections for each month and the service delivery targets and performance indicators for each quarter, as set out in the service delivery and budget implementation plan, are made public no later than 14 days after the approval of the service delivery and budget implementation plan

7.7 Oversight responsibility of the Accounting Officer

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

In the second instance the Municipal Manager is accountable to the Council for the overall administration of the municipality.

The Accounting Officer (Municipal 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 Mayor for consideration and tabling in the municipal council
- (d) Report to the municipal council any shortfalls in budget revenue,

overspending and necessary steps taken to prevent shortfalls or overspending

- (e) Submit to the Mayor actual revenue, borrowings, expenditure and where necessary report the variances thereof

7.8 Oversight responsibility of the Chief Financial Officer (CFO)

The CFO of a municipality must assist the accounting officer in the administration of the municipality's bank accounts and in the preparation and implementation of the municipality's budget. The CFO must also perform such budgeting, accounting, analysis, financial reporting, cash management, debt management, financial management, review and other duties as may be delegated by the accounting officer to the CFO.

7.9 Oversight with Section 71 reporting

The Finance department will facilitate the section 71 reporting process as follows:

- (a) Financial month end reports must be available as per section 71 requirements
- (b) Reports detailing the following information will be circulated to the Executive Management Team:
 - Actual operating revenue / expenditure for the month compared to the budget for the month per category
 - Actual operating revenue / expenditure for the year to date compared to the budget for the year to date
 - Actual Operating Revenue / Expenditure for the year to date compared to the budget for the full year
 - Capital Budget Expenditure for the month compared to the budget for the month
 - Capital Budget Expenditure for the year to date compared to the budget for the year to date
 - Capital Budget Expenditure for the year to date compared to the budget for the full year
 - Grant allocations received as well as expenditure against those grants for the year to date
 - Details of unspent grant funding
- (c) Reports will be submitted to the Executive Mayor on the 10th working day of each month
- (d) A formal report with a full analysis of the financial results will be submitted to the Finance Portfolio Committee and Mayoral Committee on a monthly basis

- (e) Re-prioritisation of budgets will be allowed to facilitate shifting of funds towards anticipated over-expenditure items as identified above

7.10 Oversight with Section 72 reporting

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. The assessment outcomes may or may not necessitate budget adjustments. Where necessary, an adjustments budget has to be prepared and submitted to the 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. 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 25 January each year.

7.11 Oversight by Portfolio Committees and Sub-Councils

Portfolio Committees must provide an oversight role on, inter alia :

- Budget
- Business Plans
- Strategic objectives
- Policies and programmes

by advising the Executive Mayor on these issues as per Section 59 (1) (a) of the Systems Act

Sub-Councils must provide an oversight role on the budget by making recommendations to Council on any budget related matter affecting its area of responsibility.

7.12 Oversight by National Treasury

It is the responsibility of National Treasury to monitor the budget of the City of Cape Town to establish whether the budget is consistent with national government's fiscal and macro-economic policy and whether the budget complies with chapter 4 of the MFMA. National Treasury must also monitor the implementation of the City of Cape Town's budget, including expenditure, revenue collection and borrowing to promote good budget and fiscal management.

7.13 Oversight by Provincial Treasury

It is the responsibility of Provincial Treasury to monitor the preparation of the City of Cape Town's budget as well as monitor the monthly outcome of the budget.

8. **IMPLEMENTATION, EVALUATION AND REVIEW**

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

- (a) This policy shall be implemented once approved by Council.
- (b) Directorates to ensure that during implementation stages that there is consistent monitoring & evaluation of the policy as indicators will inform blockages within the policy implementation phases.
- (c) In terms of section 17(3)(e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.
- (d) Changes in legislation must be taken into account for future amendments to this policy.
- (e) Any amendments to this policy must be re-submitted to council for review approval.