# EKURHULENI HOUSING COMPANY

# BUDGET IMPLEMENTATION AND MONITORING POLICY

# POLICY HISTORY

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| Document Title: | Budget Implementation and Monitoring Policy |
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| Electronic Location: | |

Description of Content:

This policy regulates the implementation and monitoring of budget in compliance with the MFMA Budget and Reporting Regulations.

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Acceptance status by ~~Executive Manager~~/CFO
(Tick relevant option)

31/01/2020

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| 1: Full Acceptance | ✓ | 2: Partial Acceptance | | 3: Conditional Acceptance | |
| For 2 and 3, describe the exclusions, criteria and dates of conditions | | | | | |
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(Tick relevant option)

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| 1: Full Approval | ✓ | 2: Partial Approval | | 3: Conditional Approval | |
| For 2 and 3, describe the exclusions, criteria and dates of conditions | | | | | |
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| 1: Full Approval | ✓ | 2: Partial Approval | | 3: Conditional Approval | |
| For 2 and 3, describe the exclusions, criteria and dates of conditions | | | | | |
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# DOCUMENT CONTROL INFORMATION

## A. EVIDENCE OF REVIEW / APPROVAL RECORD OF THE POLICY (INTERNAL TO ORIGINATING BRANCH/DEPARTMENT)

| Effective from | Version Number | | | | | |
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## 1. DEFINITIONS

- **Parent municipality**- refers to the City of Ekurhuleni
- **Mayor** – Mayor of the parent municipality
- **Entity** – Municipal Entity (Ekurhuleni Housing Company)
- **MFMA**- Municipal Finance Management Act 56 OF 2003
- **MBRR**- Municipal Budget and Reporting Regulations
- **CoE**- City of Ekurhuleni
- **Accounting Officer**- The Chief Executive Officer as referred to in section 93 of the MFMA
- **Official** – employee of the entity, a person seconded to or contracted by the entity to work as a member of the staff of the entity otherwise than as an employee.
- **Unauthorised expenditure** - means any expenditure incurred otherwise than in terms of an approved budget, and within the limits of the amount appropriated for the vote in an approved budget.
- **Irregular expenditure** – means expenditure incurred by a municipal entity in contravention of, or that is not in accordance with any applicable legislation, or requirement of the supply chain management policy (SCM) of the entity, which has not been condoned in terms of the applicable legislation or SCM policy.
- **Fruitless and wasteful expenditure** - means expenditure that was made in vain and would have been avoided had reasonable care been exercised.
- **Overspending** – in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote.

## 2. INTRODUCTION

According to the MFMA section 95, the accounting officer of a municipal entity is responsible for managing the financial administration of the municipal entity, and must for this purpose take all reasonable steps to ensure:

- That the resources of the e are used effectively, efficiently and economically and transparently;
- That full and proper records of the financial affairs of the entity are kept;
- That the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control, and of internal audit operating in accordance with any prescribed norms and standards; and
- That unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented.

It is against this background that the entity realised a need for this Policy.

## 3. PURPOSE

The purpose of this Policy is to implement the provisions of the municipal budget and reporting regulations applicable to municipal entities. It is intended that this Policy will enhance compliance with the MFMA and its Regulations. The primary objectives are:

- To ensure sound and sustainable management of the budget
- To ensure effective budget monitoring
- To ensure compliance with the MFMA Budget and Reporting Regulations

This policy deals with the following:

- Budget management and oversight
- Shifting of funds within votes
- Introduction of adjustments budget
- Unforeseen and unavoidable expenditure
- Unauthorised expenditure ~~approved by the Mayor~~

## 4. SCOPE OF APPLICATION

The Budget Implementation and Monitoring Policy is applicable to the Ekurhuleni Housing Company.

## 5. MANDATE/LEGAL FRAMEWORK

This policy is prepared in accordance with the provisions of section 87 and 88 of the MFMA 56 of 2003 and MBRR, 2008.

## 6. CONTENT OF POLICY

6.1 Budget Management and Oversight

The entity may incur expenditure only in accordance with its approved annual budget or an adjustments budget.

**Annual budget**

The board of directors must for each financial year submit a proposed budget for the entity to the parent municipality not later than 150 days before the start of the financial year or earlier if requested by the parent municipality.

The annual budget must be submitted by due date as determined by the parent municipality through the budget tool.

Revenue from parent municipality or other sources may be included in the budget only if there is acceptable documentation that guarantees the funds, acceptable documentation is constituted by:

(a) In the case of allocations from the parent municipality-

- Allocation in the approved annual budget or subsequent adjustment budget of the parent municipality.
- Proposed budget contained in the tabled budget of the parent municipality

(b) In the case of other grants; the relevant contract or other legally binding document that guarantees the funding.

Capital budget must detail the source(s) of funding in the annual budget item submitted to the parent municipality.

Capital projects included in the annual capital budget must be approved by the board of directors.

The board of directors must approve the annual budget of the entity not later than 30 days before the start of the financial year.

The D-schedules for the annual budget must be submitted to the parent municipality as specified in section 39 of the MBRR.

**Adjustment budget**

The board of directors may, with the approval of the mayor, revise the budget of the municipal entity, but only for the following reasons:

(a) To adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year.
(b) To authorise expenditure of any additional allocations to the municipal entity from its parent municipality
(c) To authorise, within a prescribed framework, unforeseeable and unavoidable expenditure approved by the mayor of the parent municipality, only if:

i. The expenditure could not have been foreseen at the time the annual budget was approved.
ii. The delay that will be caused pending the approval of the adjustment budget to authorise the expenditure may:
    - Result in significant financial loss
    - Cause disruption or serious threat to the continuation of basic services offered by the entity.
    - Lead to loss of life or serious injury or significant damage to property
    - Obstruct the entity from instituting or defending legal proceedings on an urgent basis.

(d) To authorise any other expenditure within a prescribed framework (only relating to rollover of funds not spent at the end of the previous financial year; or correction of errors in the annual budget of the entity)

Unforeseen and unavoidable expenditure may only be incurred if such expenditure is communicated to the parent municipality and the entity has received the approval from the Mayor. The board of directors must approve the expenditure appropriating the expenditure in the adjustment budget.

Unforeseeable and unavoidable expenditure excludes the following:

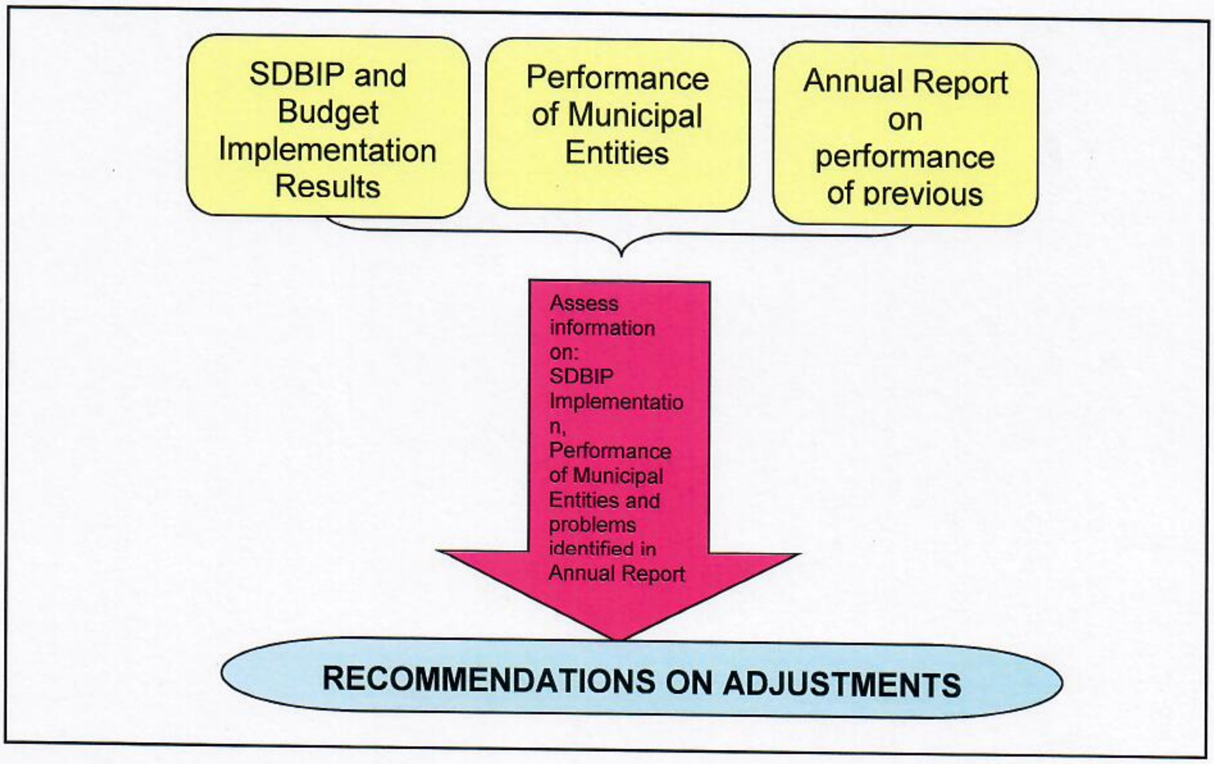
i. Price increases of goods and services during the financial year,
ii. New functions or extension of existing functions during the financial year,
iii. Appointment of personnel,
iv. Increase in board fees and remuneration of staff.

The board may not approve unforeseen and unavoidable expenditure that was considered by the board and not included in the approved annual budget of the entity.

Grants received during the year from sources, other than the parent municipality may only be expended after the board of directors has approved the adjustment budget appropriating it in the adjustment budget. The adjustment budget must still be approved by the parent municipality.

The adjustment budget is submitted to the parent municipality after the board of directors has approved it.

The budget adjustment process can be summarized as follows:




**Monthly budget statements**

Section 87 of the MFMA states:

*The accounting officer of a municipal entity must by no later than seven working days after the end of each month submit to the accounting officer of the parent municipality a statement in the prescribed format on the state of the entity's budget.*

The Finance department will facilitate the section 87 in-year reporting process as follows:

Monthly F-schedules will be submitted to the parent municipality on the 7th working day of the month, detailing the state of the entity's budget reflecting the following particulars for the month and for the financial year up to the end of that month:

(a) Actual revenue for the month, per revenue source.
(b) Actual expenditure for the month compared to the budget for the month, per expenditure type
(c) Actual revenue for the year to date
(d) Actual expenditure for the year to date compared to the budget for the year to date
(e) Capital budget expenditure for the month compared to the budget for the month
(f) Capital budget expenditure for the year to date compared to the budget for the year to date
(g) Cash flow statement
(h) Explanation of any material variances from the entity's projected revenue by source, and from the entity's expenditure projections
(i) Any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the entity's approved budget.

The monthly statements must be incorporated in the report submitted to the board of directors.

The Finance department will facilitate the assessment of the entity's performance during the first half of the financial year, taking into account:

(a) The monthly F-schedules for the first half of the financial year and the targets set in the business plan and SDBIP.
(b) The entity's annual report for the past year and progress on resolving problems identified in the annual report, and

Submit a mid-year review report on such assessment to:

i. The board of directors of the entity and;
ii. The parent municipality of the entity.

Once the adjustments have been approved by Council, the SOLAR financial system will be updated where-after the entity will process financial transactions.

1.1. Shifting of funds

Shifting of funds within the vote is permitted as the total amount appropriated for the purpose of the functional area will not increase or reduce.

Section 1 of the MFMA defines a "vote" as:

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

The term "vote" is used to divide the budget into segments and the municipality then approves the budget according to these votes via council resolution. The definition requires votes to be at the departmental or functional level. The entity is the functional area of the parent municipality and is headed by the Chief Executive Officer.

Any expenditure incurred that is not in accordance with a vote (or exceeds the amount for a vote) is classified as unauthorised expenditure, which sets off corrective and disciplinary mechanisms against the accounting officer. Any movement of funds between "votes" and alteration of service delivery targets or performance indicators therefore requires an adjustment budget and a further council resolution. That is, a council resolution is required to deviate from the original council resolution that approved the budget. Keeping the "vote" at a high level allows the Chief Executive Officer to move expenditure and revenue as necessary within a "vote" without an adjustments budget provided the overall revenue, expenditure and performance objectives for that "vote" are not negatively affected.

The Finance department will facilitate the requests for shifting of funds within the vote per the delegation of authority.

The shifting of funds within the vote will be allowed within the following parameters:

(a) Any request for shifting of funds within the vote (be it for capital or operating expenditure), must be done using the prescribed form.

(b) The following process of information verification must be completed before the request is submitted for approval:

i. Verification that the request will not lead to the shifting of funds that are not within the limits of the delegated powers as indicated in the approved delegation of authority.
ii. Provision of background information as to why the shifting of funds are required.
iii. Provision of specific information in respect of the shifting of funds. The following information must be provided:

- Specific Questions to be answered for all budget re-allocations
  - Was the budget which is now being reduced over budgeted for?
  - If not, how is it now possible to reduce the budget?
  - If yes, why?
  - How will this re-allocation impact on the budget for the next financial year?
- Specific Questions to be answered for capital budget re-allocations
  - Will the project where funds are transferred from still be implemented?
  - If not, why not?
  - If yes, when and how will it be funded?

iv. The request must be approved in terms of the approved delegation of authority.
v. The request must not have a negative impact on the SDBIP outcomes.
vi. Only once funds have been shifted, will departments be able to process financial transactions.

(c) Shifting of funds are not permitted between Operating and Capital Budgets.
(d) Shifting of funds should not be permitted in relation to the revenue side of the budget
(e) Shifting of funds to or from personnel costs budget should not be permitted; funds can only be shifted within the personnel costs budget without increasing or reducing the overall personnel costs budget.
(f) Once approved, the shifting of funds will be processed on SOLAR financial system. Only once funds have been shifted, will the entity be able to process financial transactions.

1.2. Unforeseeable and unavoidable expenditure is incurred and approved by the Mayor

The MFMA Budget and Reporting Regulations prescribes the process to be followed for the approval of unforeseeable and unavoidable expenditure.

Unforeseen and unavoidable expenditure are expenditure that:

i. Could not have been foreseen at the time the annual budget of the municipality was passed
ii. The delay that will be caused by a pending approval of an adjustments budget may:

- Result in significant financial loss for the municipality
- Cause a disruption or suspension or serious threat to the continuation of municipal services
- Lead to loss of life or serious injury or significant damage to property
- Obstruct the municipality from instituting or defending legal proceedings on an urgent basis.

No unavoidable expenditure exceeding R15 million may be approved during a financial year.

Any official becoming aware of the need to incur unforeseen or unavoidable expenditure must immediately approach the Chief Financial Officer with the full details on the unforeseen expenditure, providing information on the consequences of not incurring the expenditure as well as an indication of the expected cost (both for the current year as well as any recurring cost resulting from the event). A confirmation that the expenditure does not constitute expenditure that may not be allowed by the Executive Mayor as per section 72(2) of the MFMA Budget and Reporting Regulations must be given by the official when approaching the Chief Financial Officer.

The Chief Financial Officer will determine whether the cost cannot be dealt with through a process of shifting of funds within the relevant votes. If sufficient funds are available for shifting within the vote, the shifting of funds process will be followed. If not, the matter will be reported to the City Manager for consideration as unforeseen and unavoidable expenditure.

Once the City Manager has granted approval, the Accounting Officer of the entity will submit a report to the Executive Mayor requesting approval. If approval is granted, the board of directors of the entity may authorise the expenditure. The Chief Financial Officer is responsible to adjust the budget in the financial system.

The abovementioned process will be dealt with as highest priority to ensure that administrative delays do not exacerbate the situation.

An adjustments budget will be submitted to the next Council meeting. The preferred process would be to shift funds between votes to avoid any negative impact on the total cash position of the entity.

1.3. Approval of un-authorised, Irregular, Fruitless and wasteful expenditure

Unauthorised expenditure includes:

a) Overspending of the total amount appropriated for the vote in the approved budget;
b) Expenditure from a vote unrelated to the department or functional area covered by the vote;
c) Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;

Irregular, Fruitless and wasteful expenditure:

Irregular expenditure excludes expenditure by the entity which falls within the definition of "unauthorised expenditure".

Any irregular or fruitless and wasteful expenditure must be disclosed in the Annual Financial Statements by the Chief Financial Officer and the Accounting Officer must present irregular or fruitless and wasteful expenditure to the Board of Directors as disclosed in the Annual Financial Statements.

The Board of Directors of the entity must on discovery of any irregular or fruitless and wasteful expenditure, promptly report in writing to the mayor and municipal manager of the parent municipality and the auditor General –

a) Particulars of the irregular expenditure
b) Any steps taken to recover the expenditure and to prevent recurrence of the expenditure

In terms of section 75 of the MBRR, the board must on discovery of any irregular or fruitless and wasteful expenditure incurred by the entity investigate the recoverability of such expenditure and decide on whether or not the relevant expenditure is recoverable.

If irrecoverable the board of directors must certify the expenditure is recoverable and submit a certificate to this effect to the mayor of the parent municipality. The board of directors cannot delegate the authority to certify this expenditure.

If the relevant expenditure is recoverable, the board of directors must decide on steps to be taken to recover the expenditure.

The board of Directors must promptly report to the South African Police Service any irregular expenditure that may constitute a criminal offence, and other losses suffered by the entity which resulted from suspected criminal conduct.

The following requirements for recovering of cost must be considered:

a) The accounting officer is liable for unauthorised expenditure deliberately or negligently incurred by the accounting officer, subject to subsection (3) of the MFMA; which states that:

   *"If the accounting officer becomes aware that the council, the Mayor or the executive committee of the municipality, as the case may be, has taken a decision which, if implemented, is likely to result in unauthorised, irregular or fruitless and wasteful expenditure, the accounting officer is not liable for any ensuing unauthorised, irregular or fruitless and wasteful expenditure provided that the accounting officer has informed the council, the mayor or the executive committee, in writing, that the expenditure is likely to be unauthorised, irregular or fruitless and wasteful expenditure"*

b) Any official of the entity who deliberately or negligently made or authorised an unauthorised, irregular or fruitless and wasteful expenditure is liable for that expenditure.

The entity must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure-

a) in the case of unauthorised expenditure, is-

   i. authorised in an adjustments budget; or

   ii. certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council; and

b) In the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by the council.

## 7. ENFORCEMENT OF POLICY

Failure to implement or comply with this policy may results in any official of the EHC or Director of the Board of EHC that authorised or incurred any expenditure contrary to these policy being held liable for financial misconduct as set out in Chapter 15 of the Act read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

## 8. COMMENCEMENTS AND REVISIONS

This policy takes effect on the date of approval and shall as and when there is a need be reviewed, to align to any changes in relevant legislation.