



**CAPE WINELANDS DISTRICT**  
MUNICIPALITY • MUNISIPALITEIT • UMASIPALA

# **EXPENDITURE POLICY**

**FEBRUARY 2015**

**Adopted by Council:  
Implemented:**

## Table of Contents

1.	ABBREVIATIONS .....	3
2.	DEFINITIONS .....	3
3.	INTRODUCTION .....	6
4.	OBJECTIVE .....	6
5.	EXPENDITURE MANAGEMENT .....	7
5.1	Withdrawals from a bank account.....	7
5.2	Commitments .....	7
5.3	Creditors .....	8
5.4	Interest on late payments .....	9
5.5	Salaries, Wages and Allowances .....	9
5.6	Banking details .....	10
5.7	Grant Expenditure .....	11
5.8	Capital Expenditure .....	11
5.9	Accounting Principles .....	11
5.10	Recovery of Losses .....	12
5.11	Unauthorised, Irregular and Fruitless and Wasteful expenditure .....	13
5.12	Unforeseen and Unavoidable expenditure.....	13

## 1. ABBREVIATIONS

**CFO** – Chief Financial Officer

**CM** – Council Minute/s

**IDP** – Integrated Development Plan

**MBRR** – Municipal Budget Reporting Regulations

**MFMA** – Municipal Finance Management Act, Act No. 56 of 2003

**MSA** – Municipal Systems Act, Act No.32 of 2000

**MSTA** – Municipal Structures Act

**MTREF** – Medium term revenue and expenditure framework

**SDBIP** - Service delivery and budget implementation plan

## 2. DEFINITIONS

**"Accounting Officer"** a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act; and also refers to the municipal manager of a municipality in terms of section 60 of the MFMA;

**"Approved budget"** the annual budget approved by a municipal council; and includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

**"Basic Municipal Service"** a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;

**"Capital Budget"** the approved budget for capital items in a given fiscal period.

**"Capital items"** capital assets with a life expectancy of more than one financial year such as property, plant and equipment, intangible assets, heritage assets and investment properties and of which the cost is normally written off over a number of fiscal periods;

**“Chief Financial Officer”** a person designated in terms of section 80(2) (a) of the MFMA;

**“Council”** the municipal council of the **Cape Winelands District Municipality** and it referred to in section 18 of the Municipal Structures Act;

**“Councillor”** a member of council;

**"Creditor"** a person to whom money is owed by the municipality;

**"Current year"** the financial year, which has already commenced, but not yet ended;

**"Delegation"** the power to perform a function or duty which is given to office bearer, councillor or staff members either in terms of section 59 of the MSA or section 79 of the MFMA;

**"Generally recognised accounting practice (GRAP)"** an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board;

**"Financial year"** a twelve month period commencing on 1<sup>st</sup> July and ending on 30<sup>th</sup> June each year;

**"Financing agreement"** includes any loan agreement, lease, and instalment purchase contract or hire purchase agreement in terms whereof the municipality undertakes to repay a long-term debt over a period of time;

**"Investment"** in relation to funds of the municipality, means –

- a) the placing or deposit of funds of the municipality with a financial institution; or
- b) the acquisition of assets with funds of the municipality not immediately required, with the primary aim of preserving those funds;

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

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

**“Long-term debt"** debt repayable over a period exceeding one year;

**"Executive Mayor"** the councillor elected as the executive mayor of the municipality in terms of section 55 of the MSTA;

**"Municipal debt instrument"** any note, bond, debenture or other evidence of indebtedness issued by the municipality, including dematerialised or electronic evidence of indebtedness intended to be used in trade;

**"Municipality"** The Cape Winelands District Municipality;

**"National Treasury"** the National Treasury established by section 5 of the Public Finance Management Act;

**"Official" –**

- (a) An employee of the municipality;
- (b) A person seconded to the municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
- (c) A person contracted by the municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;

**"Overspending" -**

- (a) 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;
- (b) in relation to a vote, causing expenditure under the vote to exceed the amount appropriated for that vote; or
- (c) in relation to expenditure under section 26 of the MFMA, causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

**"Previous financial year"** the financial year preceding the current year;

**"Senior Manager"** all officials reporting directly to the Accounting Officer as contemplated in sect 56 of the MSA;

**"Service delivery and budget implementation plan"** a detailed plan approved by the executive mayor of the municipality, in terms of section 53(l) (c) (ii) of the MFMA, for implementing the municipality's delivery of municipal services;

**"Short-term debt"** debt repayable over a period not exceeding one year;

**"Vote"** one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different directorates of the municipality; and which specifies the total amount that is appropriated for the purposes of the directorate concerned.

**"Vote holder"** means the senior manager to which the vote is assigned.

### 3. INTRODUCTION

The Municipal Finance Management Act, (Act 56 of 2003) read together with the Municipal Budget and Reporting Regulations, provides the legislative framework within which any expenditure related transactions must take place.

Section 11 of the Municipal Finance Management Act, (Act 56 of 2003) specifically provides the legislative framework for any withdrawals from any bank account in the name of the municipality.

The budget plays a critical role in an attempt to realise the diverse community needs. Central to this, the formulation of this expenditure policy must ensure that the objectives of the MFMA as set out in section 2, is incorporated in the day to day administration of the municipality.

This policy must be read, interpreted, implemented and understood against this legislative background.

### 4. OBJECTIVE

The objective of the Expenditure policy is to:

- a) Set out a framework for the municipality to deal with:
  - i. All expenditure related transactions;
  - ii. To establish and maintain procedures to ensure adherence to the Municipality's IDP review and budget processes; and
- b) Ensure that all monies due by the municipality is paid in full within the 30 days of date of invoice or statement; whichever is the latest as prescribed by the Municipal Finance Management Act, 2003 (Act No.53 of 2003); and

- c) Ensure that the principles applied, as a result of this policy, will enhance and support a healthy working capital position for the municipality.

## **5. EXPENDITURE MANAGEMENT**

### **5.1 Withdrawals from a bank account**

- 5.1.1. Any withdrawal from a bank account; in the name of the municipality, may only occur in terms of section 11 of the MFMA.
- 5.1.2. All withdrawals must comply with the Cash & Investment Policy of the municipality and shall be signed or authorised by not fewer than two people as authorised by the Accounting Officer.
- 5.1.3. The delegated authority to sign cheques or authorise electronic payments shall be in writing and kept on record, and be reviewed regularly by the Accounting Officer. Copies of such letters of authority will be kept by the expenditure department.

### **5.2 Commitments**

- 5.2.1. A commitment by an official of the municipality may only be undertaken on behalf of a third party when the full costs are recovered in advance before commencement of the work, either specially or generally.
- 5.2.2. Senior Managers shall advise the CFO of the officials authorised to sign requisitions for goods and services in respect of the categories determined and approved by the municipal manager from time to time.
- 5.2.3. Specimen signatures of all officials authorised to sign requisitions shall be supplied to the CFO.
- 5.2.4. Supply Chain Management will keep record of all authorised officials and the specimen signatures.
- 5.2.5. No councillor or official of the municipality shall commit the Municipality to any authorised expenditure unless the necessary Supply Chain Management processes have been followed which include the completion of an official requisition or order.

- 5.2.6. The CFO shall determine the information to be supplied on such requisition or order.

### **5.3 Creditors**

- 5.3.1. All money owed by the Municipality must be paid within thirty (30) days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.
- 5.3.2. Payments will only be made directly to the person or institution to which a contract was awarded and from which the invoice is received for legally rendering the service to the Municipality.
- 5.3.3. All requests for payment, properly certified and accompanied by the relevant invoices and supporting documentation must reach the Creditors' Department at least 3 days (72 hours) before payments are due.
- 5.3.4. Senior Managers shall advise the CFO of the names of officials empowered to sign vouchers and authorise payment of accounts, together with their specimen signatures.
- 5.3.5. Invoices or statements submitted for payment to the Head Expenditure by any department shall be in such form as may be required by the CFO and must state the reference to the relevant vote to meet such payment.
- 5.3.6. When a department authorises the payment of accounts the signatory certifies and authorises that:-
- (a) All processes in terms of the Supply Chain Management Policy of the Municipality had been followed;
  - (b) The goods and services have been received and rendered in good order and are under the control of the Municipality;
  - (c) The account has not previously been submitted for payment;
  - (d) Sufficient budgetary provisions exists;
  - (e) If excess expenditure is involved, the resolution authorising the excess expenditure shall be quoted on



the voucher;

- (f) Authority for the payment exists, in which case the authority shall be indicated on the voucher; and
- (g) Fruitless and wasteful expenditure has not been incurred.

5.3.7. Before payment is processed the Creditors Department shall ensure that:-

- (a) The prices, calculations and any taxes are correct;
- (b) Any discounts to which the municipality is entitled to have been deducted;
- (c) The account has previously not been paid; and
- (d) Sufficient budgetary provisions exists.

5.3.8. All payments due by the Municipality shall be made by cheque or approved electronic payment method drawn from the banking account of the Municipality.

5.3.9. Certain payments may be made from petty cash in accordance with the Supply Chain Policy as amended from time to time.

5.3.10. The procedures in terms of the petty cash policy must be followed in respect of petty cash payments:

#### **5.4 Interest on late payments**

5.4.1. No interest will be payable by the Municipality on any late payments unless due to negligence on behalf of an official of the Municipality.

5.4.2. In the case that the interest charge is due to the negligence of an official the expenditure is classified as fruitless and wasteful expenditure.

#### **5.5 Salaries, Wages and Allowances**

5.5.1. The CFO shall be responsible for the calculation and payment

of salaries, wages and allowances.

- 5.5.2. Payment shall be made in accordance with pay sheets approved by the Head Expenditure to a nominated bank account of the municipal employee or councillor.
- 5.5.3. The Director: Corporate Services is responsible to notify the Head Expenditure of all appointments, promotions, dismissals, resignations, transfers, absences for any reasons, and all matters affecting the emoluments of employees of the municipality.
- 5.5.4. The submission of such information to the Head Expenditure shall be in such form and at such dates and times as the CFO may determine from time to time.
- 5.5.5. The Director: Corporate Services shall be responsible for the maintenance of all records essential for the accurate determination of emoluments and leave due to employees of the municipality.

## **5.6 Banking details**

- 5.6.1. Any changes to creditors' banking details will only be allowed when the following procedures have been met:
  - (a) The Creditor must inform the Municipality of its' banking details on an original letterhead from the specific company and approved by the relevant banking institution with their official stamp and signatures.
  - (b) In the case where official letterheads and documentation is not available a letter from the banking institution duly signed by both parties and official stamp will be required.
  - (c) Only original documentation information as set out above will be accepted for any changes to banking details.
- 5.6.2. Refunds in respect of other deposit accounts, excluding consumer deposits, will only be refunded to the bank account originally certified by the beneficiary at the time of payment.

## **5.7 Grant Expenditure**

- 5.7.1. A proper cash flow in respect of Grant expenditure as well as Grant income related to the Grant Funding project must be drawn up by the relevant director and included in the budget.
- 5.7.2. No payments will be allowed in respect of projects to be financed from external grants unless grant funding have been received.
- 5.7.3. Council may, however, approve payments before any funds have been received but only where funds have already been committed to in writing, by the relevant state department or other institution.
- 5.7.4. The relevant directorate must obtain approval for bridging finance, as referred to in subparagraph 5.7.3.

## **5.8 Capital Expenditure**

- 5.8.1. No capital expenditure shall be incurred or committed to any project unless:-
  - (a) Duly appropriated in an approved capital budget or adjustments budget; and
  - (b) All necessary legislative requirements have been met as set out in the MFMA section 19, Budget and Reporting Regulations sections 11 and 13 and the Supply Chain Management Policy of the municipality

## **5.9 Accounting Principles**

- 5.9.1. The CFO shall determine the format, standards and systems applicable to the accounting procedures on expenditure. In doing so cognisance must be taken of the General Recognised Accounting Practices (GRAP) guidelines issued by the Accounting Standards Board (ASB).
- 5.9.2. Council items related to financial matters, will not be forwarded to Council if it is not supported with the necessary comments from the CFO.
- 5.9.3. The CFO shall ensure that proper accounting records and

registers are opened and maintained in compliance with subsection 5.9.1.

- 5.9.4. The CFO may prescribe the requirements for access to electronic accounting systems and shall ensure that the necessary security and password systems for this purpose is maintained.

#### **5.9.5. Relief, charitable, trust or other funds**

- 5.9.5.1. In terms of section 12 of the MFMA read together with section 12 of the MBRR the Municipality may not transfer any funds from the Municipality into a fund created in terms of section 12 of the MFMA.

- 5.9.5.2. The Municipality may incur expenditure in support of the objectives for which the funds were created, if approved in a duly approved budget.

#### **5.9.6. Capital Replacement Reserve**

- 5.9.6.1. No direct expenditure may occur against the fund.

- 5.9.6.2. All expenditure must be included in a duly approved budget and incurred via the Supply Chain Management Policy of the Municipality.

- 5.9.6.4. Capital items to be financed from the Capital Replacement Reserve (CRR) must be encountered with a contribution equal to the expenditure and transferred from the CRR to Accumulated Surplus and recorded as such in the SOCNA.

#### **5.9.7. Other Provisions**

- 5.9.7.1. Expenditure incurred is only allowed as a direct allocation to any provision, where the necessary cash provision has been made in the cash flow budget of the Municipality as duly approved.

- 5.9.7.2. All expenditure must be incurred via the Supply Chain Management Policy of the Municipality.

### **5.10 Recovery of Losses**

- 5.10.1. Any loss suffered by the Municipality due to any fraudulent or

corrupt act or an act of bribery shall be dealt with and immediately be reported to the South African Police Service, Auditor-General, Mayor and Accounting Officer in terms of section 32 (b) of the MFMA

- 5.10.2. Circumstances of financial misconduct by municipal officials in accordance with section 171 of the MFMA must be reported to the Accounting Officer immediately.

### **5.11 Unauthorised, Irregular and Fruitless and Wasteful expenditure**

Refer to Councils Unauthorised, Irregular and Fruitless and Wasteful Policy in this regard.

### **5.12 Unforeseen and Unavoidable expenditure**

Refer to Council's Unforeseen and Unavoidable policy in this regard.