

MUNICIPAL BUDGETING

PRESENTED BY:

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LGBA

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



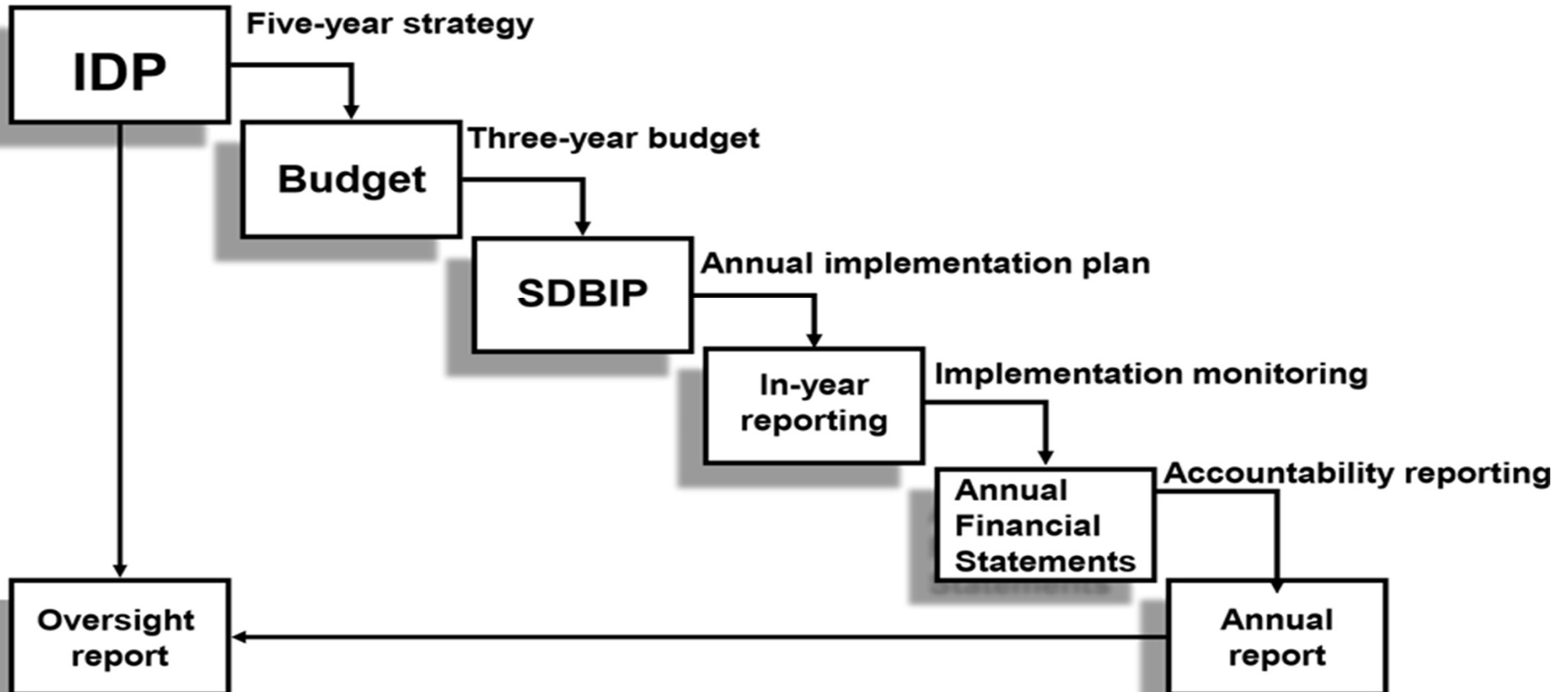
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Presentation outline

- LG budget process
- Regulated Budget Schedules/ Tables
- Funded budget

Local Government Accountability Cycle



Accuracy of information depends on:

- Organisational structure aligned to basic services
- Sound municipal policies, processes and procedures
- Standard chart of accounts for municipalities

Planning, Budgeting and Implementation

- Budgeting is the process of allocating limited resources to policy priorities covering service delivery imperatives
- Policy priorities in a municipality are decided upon by the community and the political executive and form the basis of the IDP
- The IDP should match to the strategic objectives of other role-players, such as national departments, provincial governments, public entities and other municipalities
- Council must ensure that the IDP priorities address the NDP, Medium Term Strategic Framework, State of the Nation Address, Provincial Growth and Development Strategy (PGDS), among others

Municipal Budgeting

- Budgeting purpose - to allocate scarce financial resources to the operations and responsibilities of the municipality
- A municipality's funds are mostly generated from levying rates & taxes, transfers by National and Provincial government and user fees paid by the community, among others
- It is important that the municipality is upfront clear on how it intends to use public funds for the delivery of services to the community
- The effective management of public expenditure can help a municipality meet its IDP objectives and priorities and deliver basic services to the community
- Poor public expenditure management can undermine service delivery to the most vulnerable communities

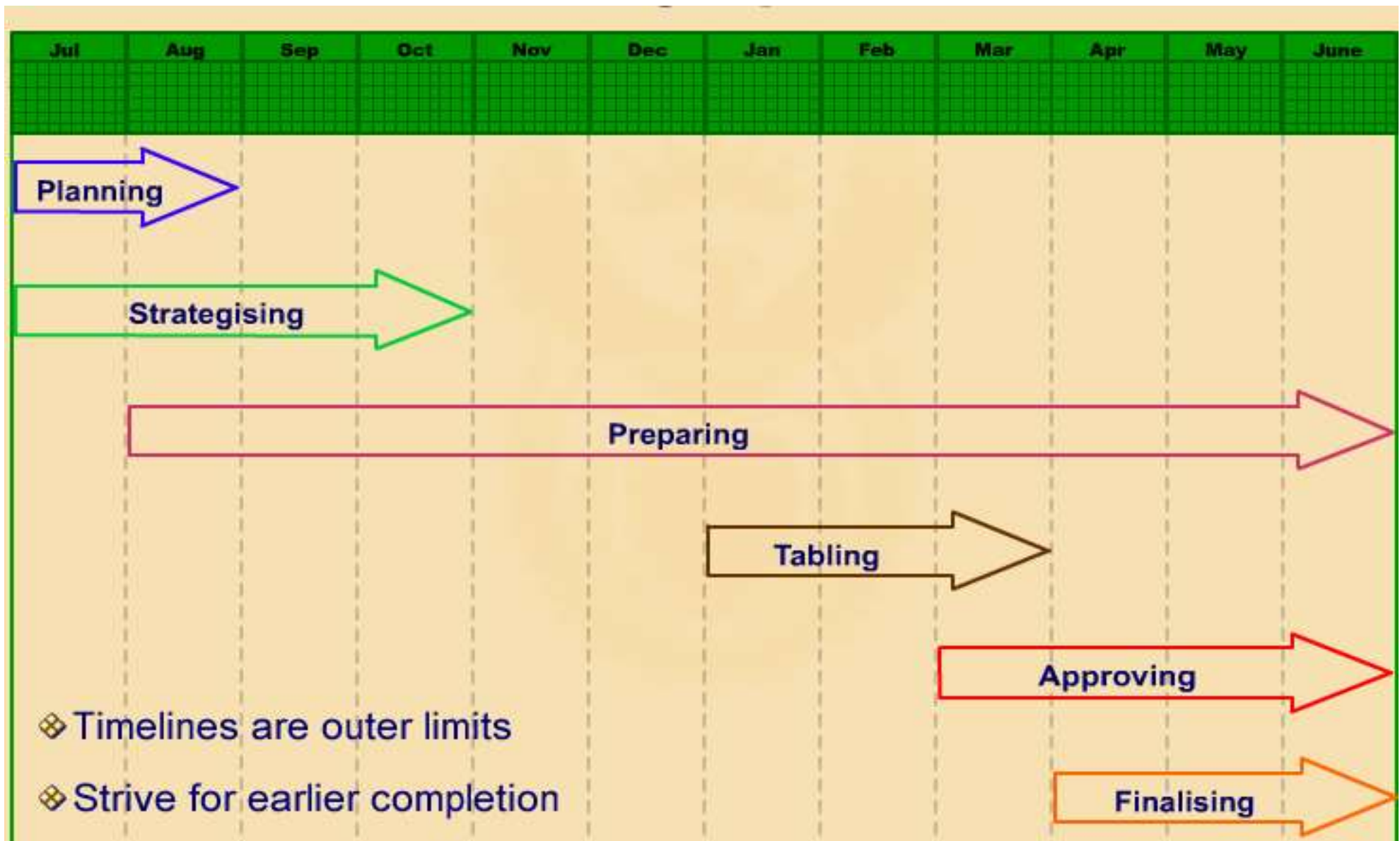
Six steps to preparing the budget

1	Planning	Schedule key dates, establish consultation forums, review previous processes
2	Strategising	Review IDP, set service delivery objectives for next 3 years, consult on tariffs, indigent policies, credit control policies, free basic services and consider local, provincial and national issues, previous year's performance and current economic and demographic trends
3	Preparing	Prepare budget, revenue and expenditure projections, draft budget policies, consult, consider local, provincial and national priorities
4	Tabling	Table budget, revised IDP and budget related policies before council. Consult and consider formal local, provincial and national inputs and responses
5	Approving	Council approves budgets, revised IDP and budget related policies
6	Finalising	Publish budget and approve and publish SDBIP and annual performance agreements and indicators

Legal framework: Key MFMA prescriptions in relation to the municipal budgeting process

- S15(a) Municipality may incur expenditure only i.t.o. an approved budget
- S16(1) Council must approve budget **before** the start of the financial year (**that is before 1 July**)
- S21(1)(a) Mayor must coordinate budget & IDP preparation processes
- S21(1)(b) Mayor must table time schedule of key deadlines at least 10 months before start of budget year (**31 August**) for:
 - Annual review of the IDP, preparation, tabling & approval of budget and public consultations
- S16(2) Mayor must table budget to Council at least 90 days before start of financial year (that is by **31 March**)
- S17(3) Tabled budget must be accompanied by, inter alia
 - Draft resolutions approving budget
 - Draft resolutions imposing tariffs and taxes
 - Proposed amendments to IDP and budget related policies
 - Proposed service delivery agreements with external mechanisms
- S24 Council must consider budget for approval at least 30 days before the start of the budget year (that is by **30 June**)

Budget Process timeline



Schedule of Key Dates in the municipal financial year (1)

Municipal Financial Year : 01 July to 30 June

Budget Process (incl. planning, preparation, consultation and adoption of annual budget)		
Activity	Deadline	Reference*
Table Budget Process timetable in Council	31 August (10 months prior to start of fin.yr)	S 21(b) & 53 (1)
Table draft budget in Council	31 March (90 days prior to start of fin. yr)	S 16(2), 17 & 87 (3)
Council to consider annual budget for approval	31 May (30 days prior to start of fin.yr)	S 24(1)
Approve annual budget by Council resolution	30 June	16(1) & 24(2)
In-year Monitoring and Reporting Processes		
Submit monthly S71 report to Mayor, PT and NT	Within 10 working days of the start of the month	S71 (1), (2), (3), (4)
Mayor to table Quarterly S71 report in Council	Quarterly	S52(d)
NT to publish S71 information on a quarterly basis	Quarterly (within 45 days of end of quarter)	
Mid-year Budget and Performance Assessment	25 January	S72 (1)
Table Adjustments Budget in Council	28 February	S72(3)

* MFMA reference

Schedule of Key Dates in the municipal financial year (2)

Annual Financial Statements and Annual Reports		
<i>Activity</i>	<i>Deadline</i>	<i>Reference*</i>
Submit AFS and Annual PR to Auditor General (no entities)	31 August	S126 (1) (a)
Submit consolidated AFS to AG (entities)	30 September	S126 (1) (b)
Audited Financial Statements received from AG	30 November	S126 (3)
Table Annual Report in Council	31 January	S127 (2)

* MFMA reference

BUDGET REGULATED SCHEDULES/ TABLES



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FUNDED BUDGETS



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Funding Compliance Methodology

- A municipal budget must be funded in terms of **Section 18 of the MFMA** before a Municipal Council can adopt that budget for implementation.
- A funded budget is essentially **a budget that is funded by a combination of cash derived either from realistically anticipated revenues to be collected in that year, and cash backed surpluses of previous years.**
- It is a common practice amongst most municipalities, when preparing their annual budgets, to overstate or inflate revenue projections, either to reflect a surplus, or on the surface to show that excess expenditure requirements are adequately covered by revenues to be collected.
- Therefore, the revenue estimates are seldom underpinned by realistic or realisable revenue assumptions resulting in municipalities not being able to collect this revenue, and as a result finding themselves in cash flow difficulties. Should such situations arise, municipalities must adjust expenditure downwards to ensure that there is sufficient cash to meet these commitments

Causes of Unfunded Budgets

- The unfunded budget starts with budgeting for operational deficits on the Financial Performance Budget (municipalities simply living beyond their cash generating capacity) or by under collecting revenue without adequately providing for debt impairment
- This is exacerbated by then including capital expenditure funded from internal funds that are not properly cash backed
- As a result, the municipality will use cash in operations rather than generating cash (this will cause the municipality to use conditional grants for operational requirements)
- Using cash in operations over the MTREF Budget will deplete the available cash carried over from previous financial years and will inevitably result in a negative cash and cash equivalent position (bank overdraft position) if continued with
- A significantly reduced or negative cash and cash equivalent position on the Cash Flow Statement will result in a negative funding position once the outstanding liabilities are subtracted from the available cash at financial year-end
- As a result, amounts owed to creditors and suppliers of bulk services will no longer be covered by available cash and debtors to be collected
- The result is an increasing negative working capital position with debt owed to creditors and suppliers of bulk services escalating beyond control
- The budget funding calculation will yield a deficit position which by definition equates to an unfunded budget

Calculation of Budget Funding Position

- The test for a funded budget is determined on Table A8 of the MBRR A1 Budget Schedule:
 - Simple test to determine if the municipality generated adequate cash to cover all operational and maintenance and capital expenses during the financial year and meeting outstanding liabilities after the close of the financial year
 - The calculation simply calculates the available cash and cash equivalents at financial year end less any liabilities
 - A surplus cash position will be indicative of a funded budget position
- Funding Measurement Table A8 and includes the following calculation:

<u>Cash and investments available</u>
Cash/cash equivalents at the year end
Other current investments > 90 days
Non current assets - Investments
Cash and investments available:
<u>Application of cash and investments</u>
Unspent conditional transfers
Unspent borrowing
Statutory requirements
Other working capital requirements
Other provisions
Long term investments committed
Reserves to be backed by cash/investments
Total Application of cash and investments:
Surplus(shortfall)

THANK YOU



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