Local Government Framework for delivery
The Constitution of South Africa establishes 3 spheres of government:

- national government
- 9 provincial governments
- local government (278 municipalities)

Section 40(1) describes each sphere of government as being:

- distinctive
- interrelated
- interdependent
- but there is no reference to them being autonomous
Legal framework

The Constitution

Municipal Structures Act

Municipal Finance Management Act

Municipal Fiscal Powers & Functions Act

Municipal Systems Act

Various sector legislation

Municipal Property Rates Act
Aim of the MFMA

• Modernise local government budgeting and financial management processes and practices

• Improve financial governance by clarifying and separating roles and responsibilities of councilors vis-à-vis those of municipal officials

• Maximise municipal capacity to deliver services by attending to issues of efficiency, effectiveness and sustainability, and dealing with corruption

• Set-up the accountability cycle by ensuring proper linkages between IDPs, budgets, SDBIPs, in-year reports, annual financial statements, annual reports, oversight reports and audit reports
Elements of financial management

• Municipal financial management involves:
  
  – having and implementing appropriate budget related and financial management polices
  – establish prescribed structures: BTO, SCM committees, internal audit
  – keeping full and proper financial records
  – putting in place processes to ensure sound budgeting, cash-flow management, financial reporting and asset management
  – managing resources effectively, efficiently, and economically
  – disciplinary or criminal proceedings in the case of financial misconduct
Accountability cycle in local government

- IDP
  - Five-year strategy
- Budget
  - Three-year budget
- SDBIP
  - Annual implementation plan
  - Implementation monitoring
  - In-year reporting
  - Annual Financial Statements
- Oversight report
- Annual report

**Accuracy of information depends on:**
- Organisational structure aligned to basic services
- Sound municipal policies, processes and procedures
- Standard chart of accounts for municipalities
The medium term strategic framework (MTSF) is a statement of government’s chosen priorities. It is adopted by Cabinet every five years and then updated annually. There are a set of 12 clear measurable outcomes to achieve these priorities. Government has focused its efforts and resources more rigorously to support particularly 5 of the 12 government outcomes, namely:

- Job creation specifically focused on youth employment
- Education and skills development
- Health
- Infrastructure development
- Vibrant, equitable and sustainable rural communities
That the *WHOLE* local government fiscal framework is designed to finance municipalities.
At the heart of local government is managing finances to deliver services.
# Local government financial management reform roadmap…LGBA’s core business

<table>
<thead>
<tr>
<th>Champion the Local Government Budget Reform Agenda</th>
<th>• Initiate, facilitate and oversee all municipal budget reforms with emphasis on the Municipal Budget and Reporting Regulations, in-year reporting and grant monitoring frameworks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support the development of credible, funded and sustainable LG budgets</td>
<td>• Support and advise municipalities on budget issues • Prepare annual budget circulars to guide budget preparation • NT assess budgets prior to implementation (17 non-delegated) and PT’s deal with 261 delegated municipalities</td>
</tr>
<tr>
<td>Monitor the implementation of LG budgets and conditional grants – publish information</td>
<td>• Monitor, oversee and report on municipal budget implementation • Collect, analyse and consolidate municipal information • Publish budget implementation information on a quarterly basis in terms of S71 of the MFMA</td>
</tr>
<tr>
<td>Ensure compliance and oversight with conditions of DoRA (annual)</td>
<td>• Monitor implementation of the intergovernmental grant system • Ensure the recovery of unspent and uncommitted conditional grants</td>
</tr>
<tr>
<td>Support the Implementation of the MFMA and MBRR</td>
<td>• Monitor compliance with budget related prescriptions in the MFMA • Assist in identifying municipalities in financial distress</td>
</tr>
</tbody>
</table>
Local Government:
Outline of the Municipal Budget Process
What is involved in the budget process?

• Align budget with:
  —Constitutional mandate – delivery of basic services
  —Municipal priorities expressed in the IDP
  —National and provincial priorities
  —Sector department plans

• Community consultation on IDP and draft budget

• Consultation with bulk electricity and water suppliers

• Mindful of risks which may prevent the municipality from achieving its priorities outlined in the IDP
Budget Process timeline

- Planning
- Strategising
- Preparing
- Tabling
- Approving
- Finalising

Timelines are outer limits
Strive for earlier completion
# Schedule of Key Dates in the municipal financial year (1)

## Municipal Financial Year: 01 July to 30 June

### Budget Process

<table>
<thead>
<tr>
<th>Activity</th>
<th>Deadline</th>
<th>Reference*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table Budget Process timetable in Council</td>
<td>31 August (10 months prior to start of fin.yr)</td>
<td>S 21(b)</td>
</tr>
<tr>
<td>Table draft budget in Council</td>
<td>31 March (90 days prior to start of fin.yr)</td>
<td>S 16(2), 17 &amp; 87 (3)</td>
</tr>
<tr>
<td>Council to consider annual budget for approval</td>
<td>31 May (30 days prior to start of fin.yr)</td>
<td>S 24(1)</td>
</tr>
<tr>
<td>Approve annual budget by Council resolution</td>
<td>30 June</td>
<td>16(1), 24(2), &amp; 53 (1)</td>
</tr>
</tbody>
</table>

### In-year Monitoring and Reporting Processes

<table>
<thead>
<tr>
<th>Activity</th>
<th>Deadline</th>
<th>Reference*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Submit monthly S71 report to Mayor, PT and NT</td>
<td>Within 10 working days of the start of the month</td>
<td>S71 (1), (2), (3), (4)</td>
</tr>
<tr>
<td>Mayor to table Quarterly S71 report in Council</td>
<td>Quarterly</td>
<td></td>
</tr>
<tr>
<td>NT to publish S71 information on a quarterly basis</td>
<td>Quarterly (within 45 days of end of quarter)</td>
<td></td>
</tr>
<tr>
<td>Mid-year Budget and Performance Assessment</td>
<td>25 January</td>
<td>S72 (1)</td>
</tr>
<tr>
<td>Table Adjustments Budget in Council</td>
<td>28 February</td>
<td>S72(3)</td>
</tr>
</tbody>
</table>

* MFMA reference

---

**Municipal Financial Year:**

01 July to 30 June

**Budget Process**

(incl. planning, preparation, consultation and adoption of annual budget)

- **Table Budget Process timetable in Council:**
  - 31 August (10 months prior to start of fin.yr)
  - Reference: S 21(b)

- **Table draft budget in Council:**
  - 31 March (90 days prior to start of fin.yr)
  - Reference: S 16(2), 17 & 87 (3)

- **Council to consider annual budget for approval:**
  - 31 May (30 days prior to start of fin.yr)
  - Reference: S 24(1)

- **Approve annual budget by Council resolution:**
  - 30 June
  - Reference: 16(1), 24(2), & 53 (1)

**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
  - Reference: S71 (1), (2), (3), (4)

- **Mayor to table Quarterly S71 report in Council:**
  - Quarterly

- **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
  - Reference: S72 (1)

- **Table Adjustments Budget in Council:**
  - 28 February
  - Reference: S72(3)
## Schedule of Key Dates in the municipal financial year (2)

### Annual Financial Statements and Annual Reports

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

* MFMA reference
Local Government:
Monitoring, Reporting and Accountability
Aim:

To provide government with timely information on the state of municipalities finances that highlights possible areas of risk so that such risks can be investigated and mitigated before they give rise to serious problems.
Reporting cycle summary

Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun

AFS & PR to AG

Consolidated AFS and PR to AG

Audit Report from AG

S72 Mid Year Assessment & AR tabled

Mayoral Quarterly Report

Mayoral Quarterly Report

Mayoral Quarterly Report

Mayoral Quarterly Report

S 71 Monthly Reports

[Diagram showing the flow of reports and assessments throughout the year]
Monthly budget statements (section 71)

- Role of monthly reports is to report on the status of budget implementation at the end of each month
- It is published no later than 10 working days after month end
- Format prescribed in the Municipal Budget and Reporting Regulations
- May be tabled in council
- Serves as an early warning system to management to take decisions so municipal objectives can be archived
- Sent to provincial treasury and National Treasury
## Key NT publications

<table>
<thead>
<tr>
<th>Publication</th>
<th>Legislative Deadline for information</th>
<th>Expected Publication Date</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>MTREF Budgets: Municipal</td>
<td>30 June</td>
<td>November</td>
<td>Overview of municipal budgets for MTREF period – aggregate and individual</td>
</tr>
<tr>
<td>Information on Personnel</td>
<td>30 June</td>
<td>November / December</td>
<td>Information on municipal personnel numbers and expenditure</td>
</tr>
<tr>
<td>Tabling and adoption dates for municipal Budgets</td>
<td>31 March and 30 June</td>
<td>December / January</td>
<td>Provides information on whether budgets were tabled and adopted timeously</td>
</tr>
<tr>
<td>S71 quarterly information</td>
<td>10 working days after end of each month</td>
<td>Quarterly</td>
<td>Provides information on in-year performance against municipal budgets</td>
</tr>
<tr>
<td>State of Municipal finances report</td>
<td></td>
<td>October</td>
<td>Provides information on state of municipal finances and lists municipalities in financial distress</td>
</tr>
<tr>
<td>Local Government Budget and Expenditure Review</td>
<td></td>
<td>Biennial</td>
<td>Provides information on trends in municipal finances over a 7 year period including topical issues affecting local government.</td>
</tr>
</tbody>
</table>
What to look for in quarterly Section 71 publications?

- **Cash position of municipalities**
  - Whose end-of-quarter bank balances indicate risks?
  - What is the trend since the last quarter?

- **Revenue trends**
  - Can’t see much – because reporting on billings
  - Needs to be seen in relation to growth in debtors

- **Operating expenditure trends**
  - Are municipalities ‘overspending’ against quarterly benchmarks?

- **Capital expenditure trends**
  - Are municipalities ‘under spending’ against quarterly benchmarks?

- **Growth in debtors**
- **Growth in creditors**
- **List of external loans**
- **Monthly Repairs and Maintenance expenditure**
- **Spending against conditional grants**
  - Munis should prioritise spending these funds because of the ‘use it or loose it’ policy

- **Additional information added to the reporting set**
  - Over and under spending report
  - State of municipal finances
LGBA Operational objectives

- **Municipal budget preparation:**
  - Support and advise municipalities on budget issues
  - Prepare annual budget circulars to guide budget preparation
  - Assess budgets prior to implementation

- **Budget implementation:**
  - Monitor, oversee and report on municipal budget implementation
  - Collect, analyse and consolidate municipal information
  - Publish budget implementation information quarterly in terms of S71 of the MFMA

- **Ensure compliance and oversight with DORA:**
  - Monitor implementation of the intergovernmental grant system
  - Ensure the recovery of unspent and uncommitted conditional grants

- **Drive the budget reforms agenda**
  - Initiate, facilitate and oversee all municipal budget reforms

- **Support the implementation of MFMA and MBRR (and SCOA for LG)**
  - Monitor compliance with budget related prescriptions of the MFMA
  - Assist in identifying municipalities in financial distress
Municipality
Study guidelines
Collect information
Complete returns
Submit to lgdatabase@treasury.gov.za

National Treasury
Extract attachment
Check valid filenames

Local Government Database

Lgdatabase inbox

Errors?

Check valid content
And form format

Errors?
Budget related returns
Due date: 20 July

- OSB – Statement of Financial performance (operating budget)
  - Muncde_OSB_ccyy_Y.xls
- CA – Capital acquisition budget
  - Muncde_CA_ccyy_Y.xls
- CFB – Cash flow budget
  - Muncde_CFB_ccyy_Y.xls
- GSR – Grants and subsidies received
  - Muncde_GSR_ccyy_Y.xls
- GSG – Grants and subsidies given
  - Muncde_GSG_ccyy_Y.xls
- BS – Statement of financial position (balance sheet)
  - Muncde_BS_ccyy_Y.xls
- SP – Strategic plan (IDP to budget)
  - Muncde_SP_ccyy_Y.xls
- AM – Asset Management return
  - Muncde_AM_ccyy_Y.xls
Monthly reporting (IYM)
Due date: 10 working days after end of month

- AC – Aging creditor analysis
  - Muncde_AC_ccyy_Mnn.xls
- AD – Aging debtor analysis
  - Muncde_AD_ccyy_Mnn.xls
- CAA – Capital acquisition actuals
  - Muncde_CAA_ccyy_Mnn.xls
- OSA – Statement of financial performance actuals (operating)
  - Muncde_OSA_ccyy_Mnn.xls
- CFA – Cash flow actuals
  - Muncde_CFA_ccyy_Mnn.xls
- RME – Repairs and maintenance
  - Muncde_RME_ccyy_Mnn.xls
- BSAC – Balance sheet monthly actual
  - Muncde_BSAC_ccyy_Mnn.xls
Adjusted budgets
After Mid-year performance review (24 January)

• CAR – revised capital budget
  – Muncde_CAR_ccyy_Y.xls
• OSR – revised operating budget
  – Muncde_OSR_ccyy_Y.xls
• BSR – revised balance sheet
  – Muncde_BSR_ccyy_Y.xls
• CFR – revised cash flow budget
  – Muncde_CFR_ccyy_Y.xls
Audited outcomes
Whenever received from AG

• CAAA – capital acquisition audit
  – Muncde_CAAA_ccyy_Y.xls
• OSAA – operating audited
  – Muncde_OSAA_ccyy_Y.xls
• BSA – balance sheet audited
  – Muncde_BSA_ccyy_Y.xls
• CFAA – cash flow audited
  – Muncde_CFAA_ccyy_Y.xls
• ACA – audited aging creditors
  – Muncde_ACA_ccyy_Y.xls
• ADA – audited aging debtors
  – Muncde_ADA_ccyy_Y.xls
Grants
10 working days after end of month

• All Conditional Grants that are **allocated** to the municipality:

  Muncde_FMГ_ccyy_Mnn.xls, Muncde_DRГ_ccyy_Mnn.xls,
  Muncde_EДГЄG_ccyy_Mnn.xls, Muncde_INEG_ccyy_Mnn.xls,
  Muncde_MІG_ccyy_Mnn.xls, Muncde_MSІG_ccyy_Mnn.xls,
  Muncde_NDPG_ccyy_Mnn.xls, Muncde_PTIG_ccyy_Mnn.xls,
  Muncde_RTSG_ccyy_Mnn.xls, Muncde_WCHГ_ccyy_Mnn.xls,
  Muncde_WCSГG_ccyy_Mnn.xls, Muncde_WSOG_ccyy_Mnn.xls,
  Muncde_ISDG_ccyy_Mnn.xls, Muncde_MWIG_ccyy_Mnn.xls,
  Muncde_ICDG_ccyy_Mnn.xls, Muncde_PTNG_ccyy_Mnn.xls,
  Muncde_AHСGG_ccyy_Mnn.xls
Achievements to date…

- We have developed a **budgeting system** for local government including the promulgation of the Municipal Budget and Reporting Regulations – standardized formats for the compilation of municipal budgets including a sophisticated funding assessment tool;
- We have developed a **reporting system** for local government including a Local Government Database - Institutionalised a culture of monthly reporting in terms of S71 of the MFMA by all municipalities and publishing the results on a regular basis;
- We have developed a **grant monitoring system** to ensure compliance to the legislative framework (DoRA), tracking of grant performance, providing certainty to municipalities as it relates to grant receipt, and publishing quarterly grant performance;
- All 278 municipalities in the reporting and grant monitoring net!
But challenges still exist in the LG accountability cycle…

Data challenges:

• **278 different municipal ‘charts of accounts’ (COA) -** aggregation of budget and performance information extremely difficult owing to inconsistent classification across the entire LG accountability cycle
• **Quality of municipal information is compromised due to lack of uniform classifications of revenue and expenditure items**
• **Lack of consistent information across the IDP, Budget, SDBIP, IYM and AFS**
• **Compromises** monitoring and oversight by Councils, DCoG, treasuries and legislatures
• **Compromises** government’s ability to formulate coherent policies affecting local government, and its ability to use the budget as a redistribution tool to address poverty and inequality
• Municipalities continuously **change** and amend detail COA – No consistency year-on-year
• **Impedes** transparency, accountability and overall governance in the daily, monthly and yearly activities of municipalities
We are finalising a **SCOA (standard chart of accounts)** for Local Government while undertaking other financial management reforms in the following areas:

- Research into systems solutions and financial applications that support SCOA
- Revenue value chain
- Financial modeling and costing methodologies informing tariff setting
- Reviewing the LG equitable share and conditional grants
- Exploring options for a differentiated approach in funding municipalities
- Developing a “early warning system” for identifying municipalities at risk
- Publishing of payment schedules for provincial conditional grants
- Reviewing the guidance and formats given on the SDBIP, with a view to establishing a basis for implementing a system of quarterly performance reporting that will be aligned to the section 71 reports
- Reviewing the guidance and formats given on the Annual Report
Thank you