

Local Government Framework for delivery

Local Government Budget Analysis, National Treasury | 1 October 2013



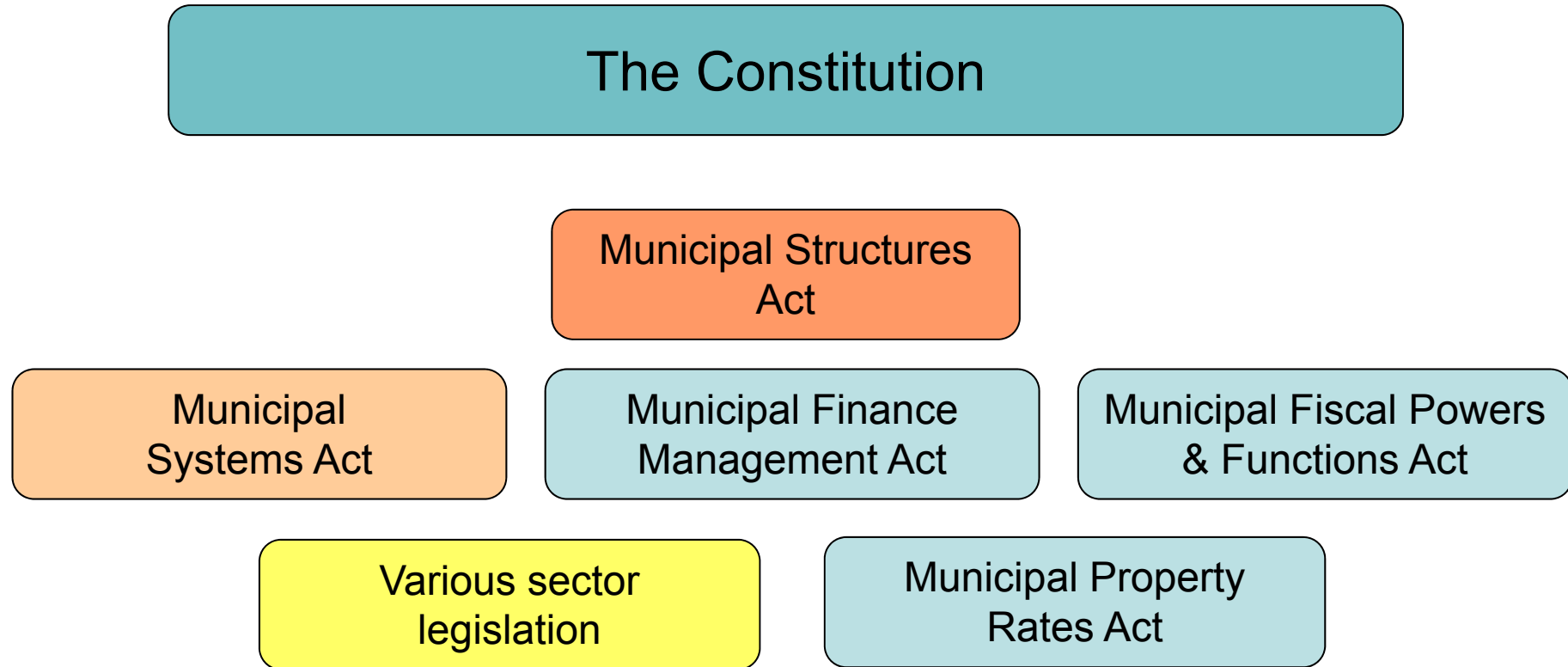
national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Spheres of Government

- 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



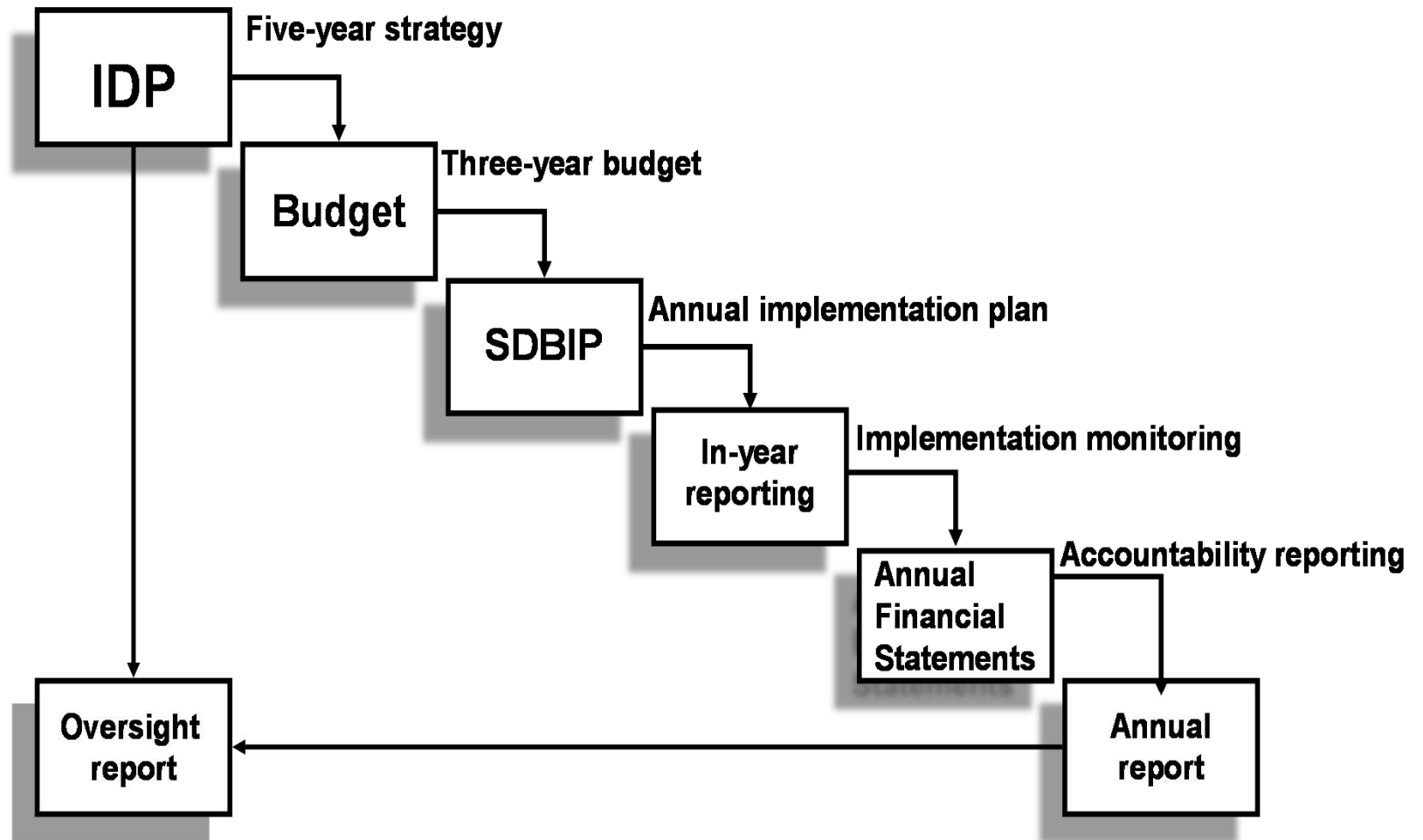
Aim of the MFMA

- 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

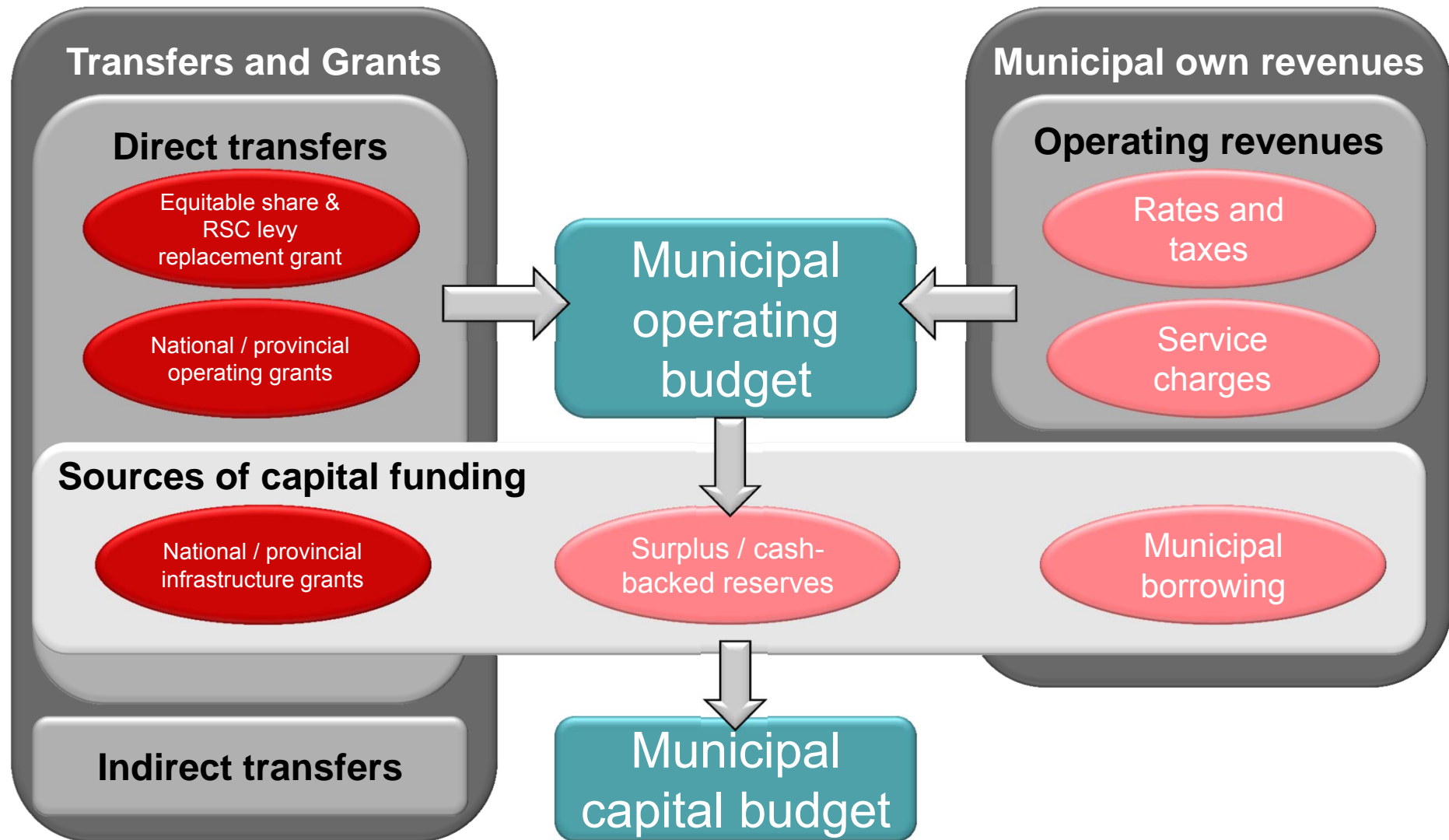


- Accuracy of information depends on:**
- Organisational structure aligned to basic services
 - Sound municipal policies, processes and procedures
 - Standard chart of accounts for municipalities

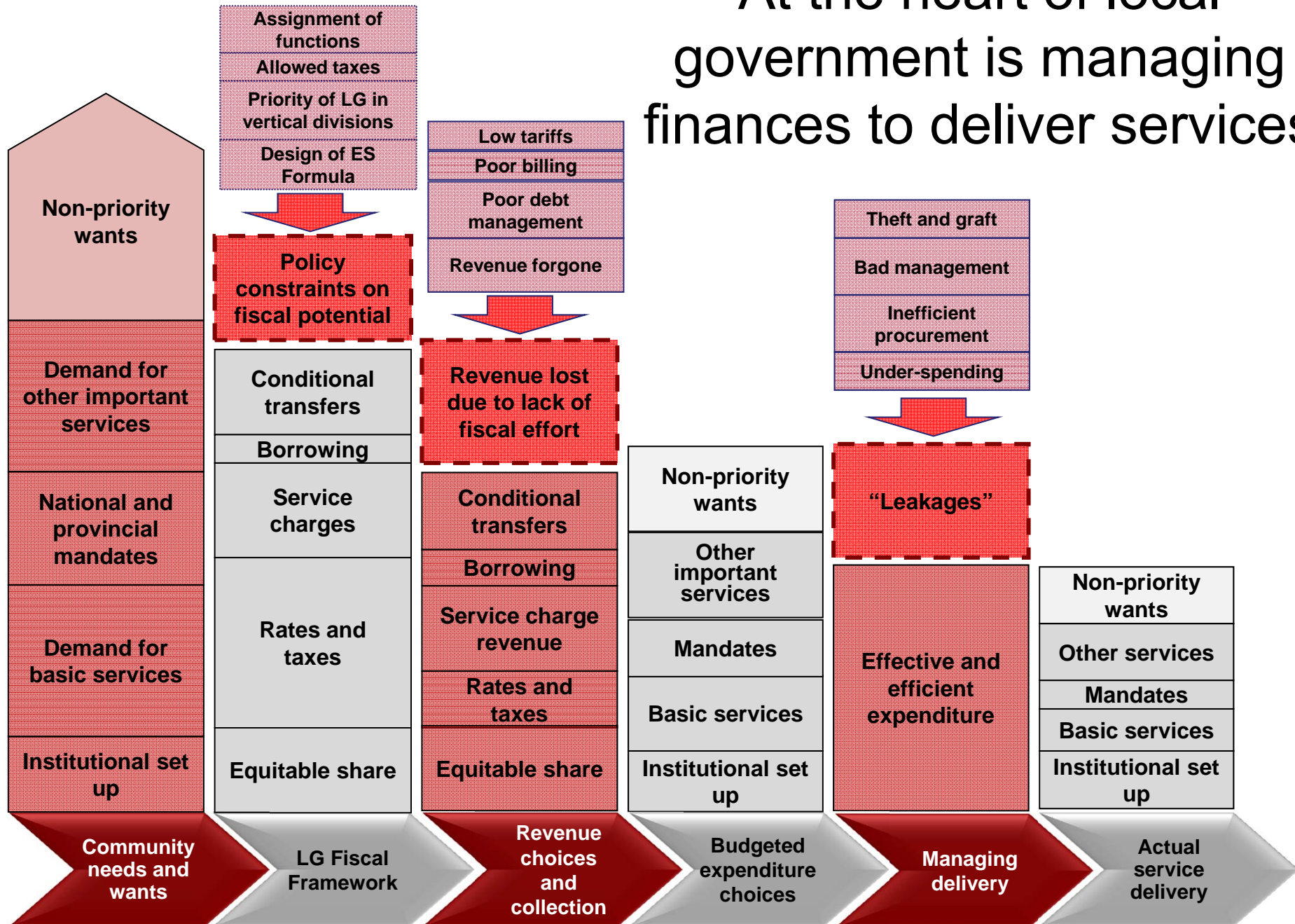
National Government Priorities

- 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*

Champion the Local Government Budget Reform Agenda

- Initiate, facilitate and oversee all municipal budget reforms with emphasis on the Municipal Budget and Reporting Regulations, in-year reporting and grant monitoring frameworks

Support the development of credible, funded and sustainable LG budgets

- 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

Monitor the implementation of LG budgets and conditional grants – publish information

- 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

Ensure compliance and oversight with conditions of DoRA (annual)

- Monitor implementation of the intergovernmental grant system
- Ensure the recovery of unspent and uncommitted conditional grants

Support the Implementation of the MFMA and MBRR

- Monitor compliance with budget related prescriptions in the MFMA
- Assist in identifying municipalities in financial distress

Local Government: Outline of the Municipal Budget Process



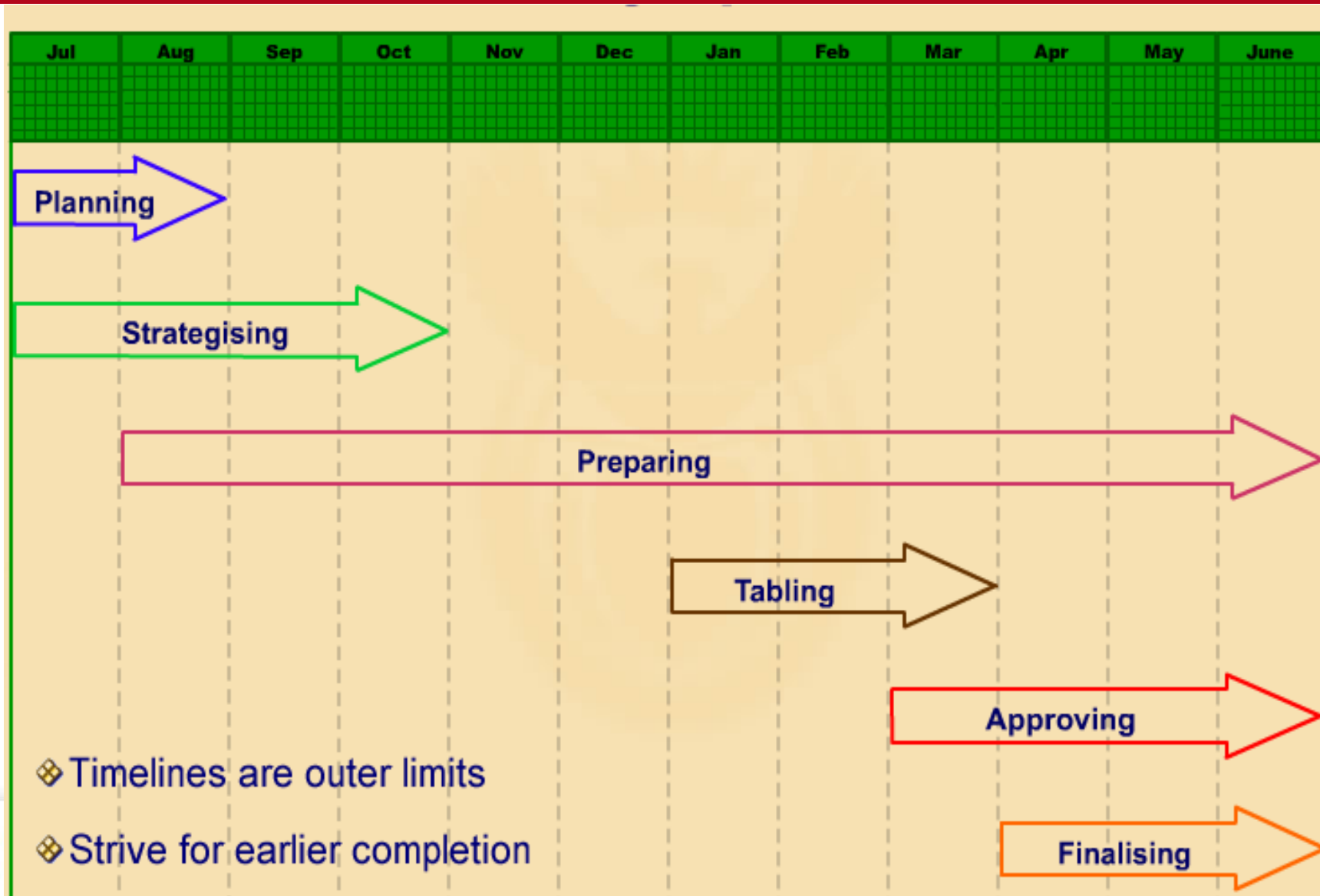
national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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



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)
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), & 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	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	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

Local Government: Monitoring, Reporting and Accountability



national treasury

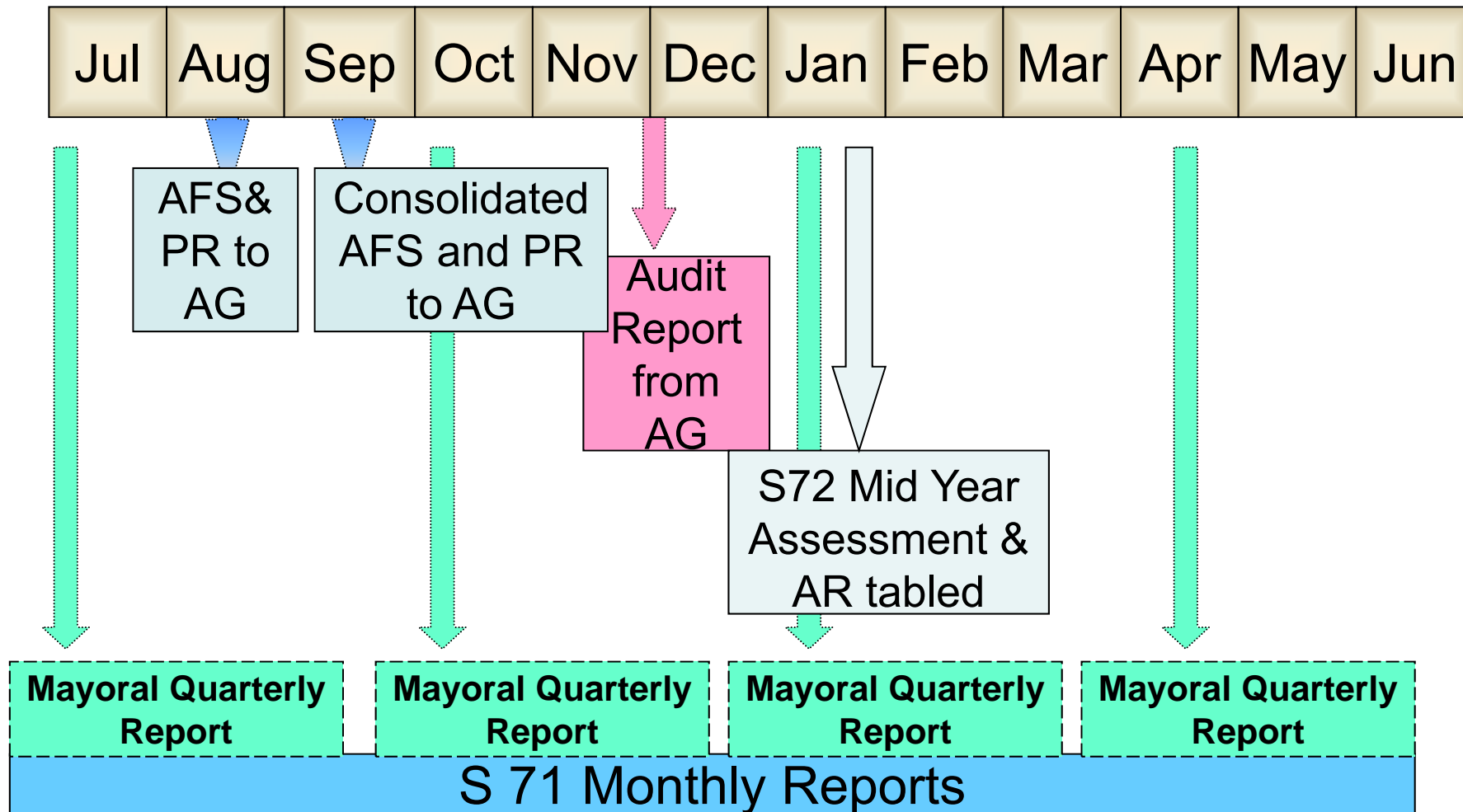
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Features of an early warning system

- 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



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 achieved
- Sent to provincial treasury and National Treasury

Key NT publications

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

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**

LOCAL GOVERNMENT DATABASE



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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

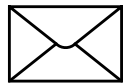
Download return form from
www.treasury.gov.za/legislation/mfma/return_forms
Study guidelines
Collect information
Complete returns
Submit to lgdatabase@treasury.gov.za



National Treasury



Lgdatabase
inbox



YES

Extract attachment
Check valid filenames

Errors?

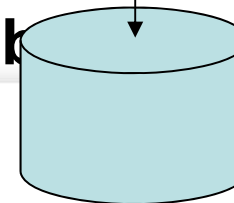
NO

Check valid content
And form format

Errors?

NO

Local Government Data



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_FMG_ccyy_Mnn.xls, Muncde_DRG_ccyy_Mnn.xls,
Muncde_EEDG_ccyy_Mnn.xls, Muncde_INEG_ccyy_Mnn.xls,
Muncde_MIG_ccyy_Mnn.xls, Muncde_MSIG_ccyy_Mnn.xls,
Muncde_NDPG_ccyy_Mnn.xls, Muncde_PTIG_ccyy_Mnn.xls,
Muncde_RTSG_ccyy_Mnn.xls, Muncde_WCHG_ccyy_Mnn.xls,
Muncde_WCSG_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_AHCG_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

Hence the Budget Reform Programme - WIP

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