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Councillor induction programme

Municipal Budgeting and Financial Management



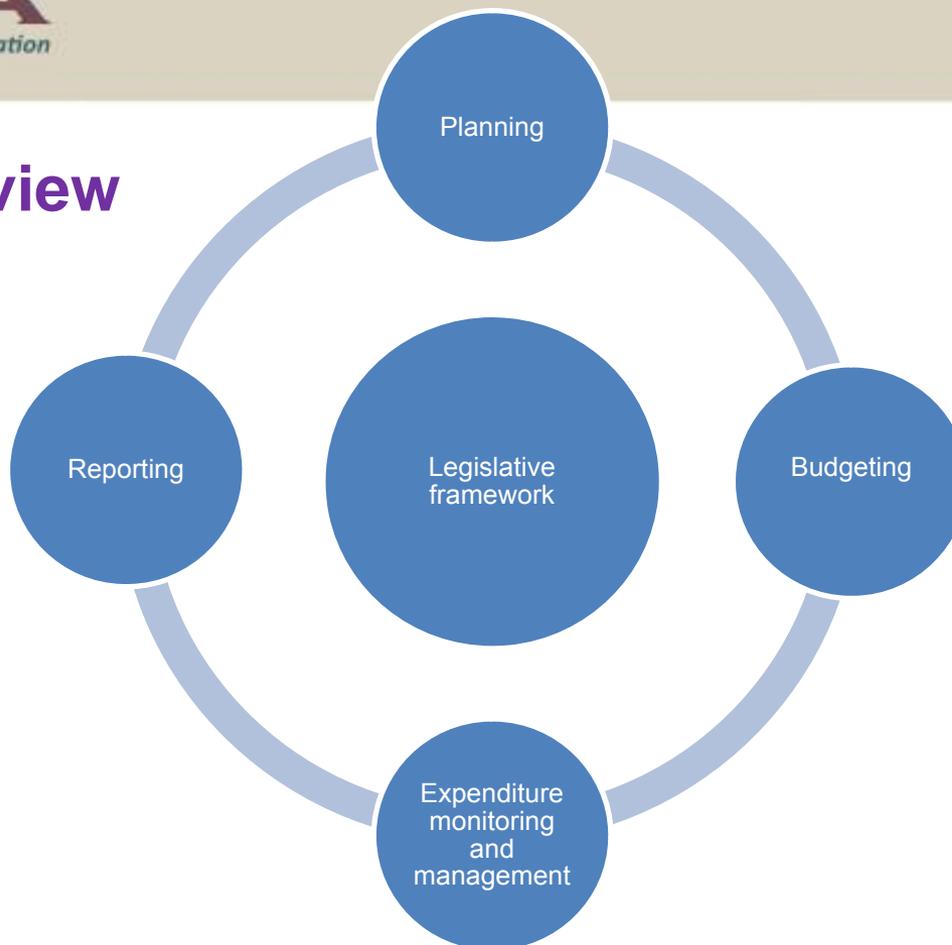
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Session One: Introduction to the course



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Course overview





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Timetable: Municipal Budgeting & Financial Management for Councilors

08:00-08:15	Session One: Introduction to the course
08:15-09:00	Session Two: Framework for delivery
09:00-10:30	Session Three: Planning and budgeting process
10:30-11:00	Tea break
11:00-12:30	Session Four: About the budget
12:30-13:30	Lunch
13:30-14:30	Session Five: Financial management & internal controls
14:30-14:45	Working tea
14:45-15:45	Session Six: Monitoring, reporting & accountability
15:45 – 16h30	Session Seven: Reflections



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Aligning your expectations with our programme

- What are you hoping we cover in today's session?



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We intend to ensure that by the end of the day, you will:

- Know the structures of government and their mandate
- Understand prioritization, planning, and budgeting process
- Understand what a budget is, where revenue comes from and about the budget format
- Overview of municipal financial management in a municipality
- Understanding of how municipalities monitor performance and report, and
- Understanding internal controls and systems and audit requirements



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Session two: Framework for delivery



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Contents

- Spheres of government
- Legislative Overview
- Financial management
 - Separation of powers
 - Financial oversight
 - The role of Council
 - Mayor and MM
 - Internal and external audits
 - Roles and responsibilities

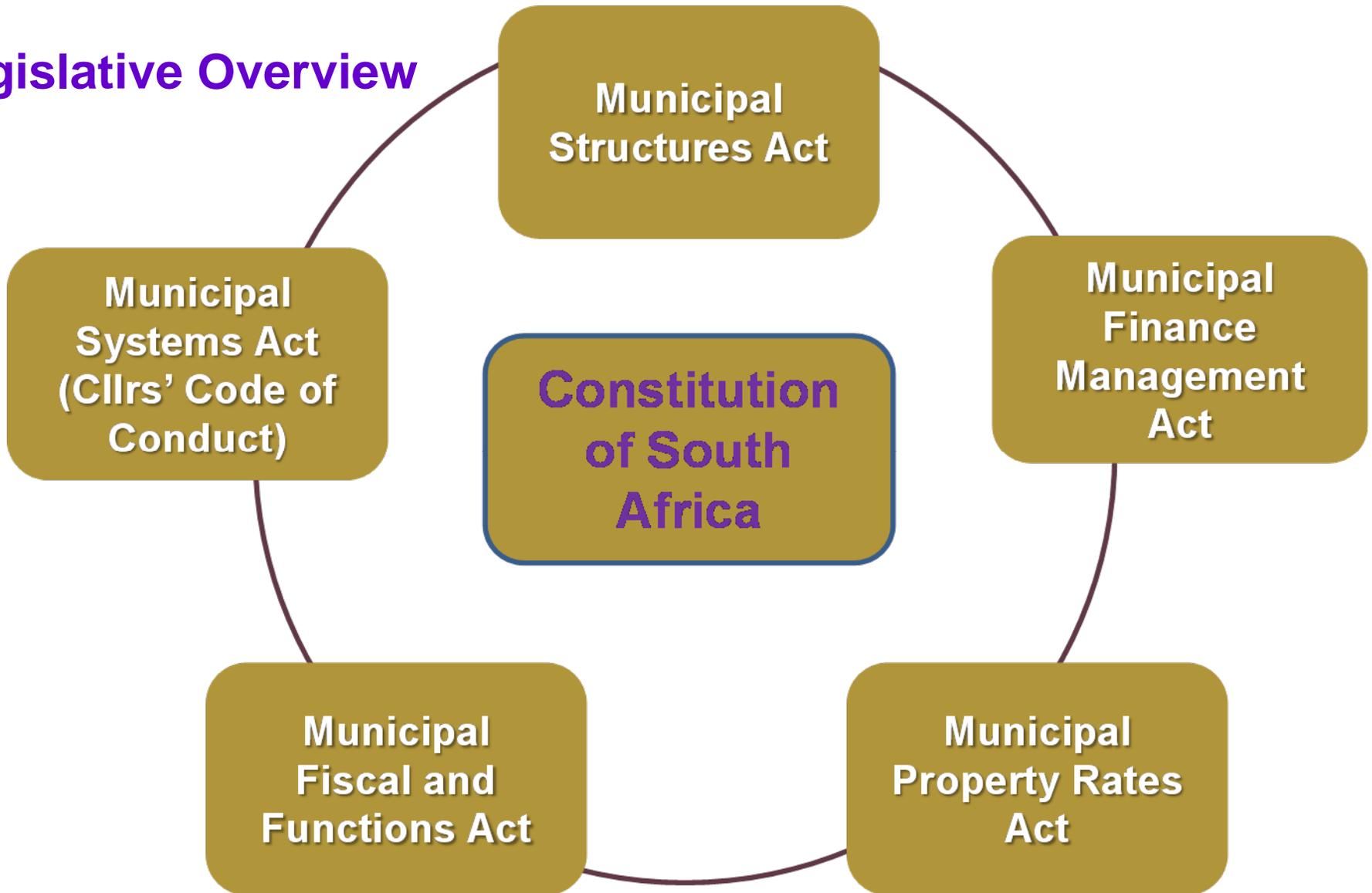


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Spheres of Government

- The Constitution of South Africa establishes 3 spheres of government (national, provincial and local)
 - National government
 - 9 provincial governments
 - Local government (278 municipalities)
- Section 40(1) describes them as being:
 - Distinctive
 - Interrelated
 - Interdependent
 - But not autonomous

Legislative Overview



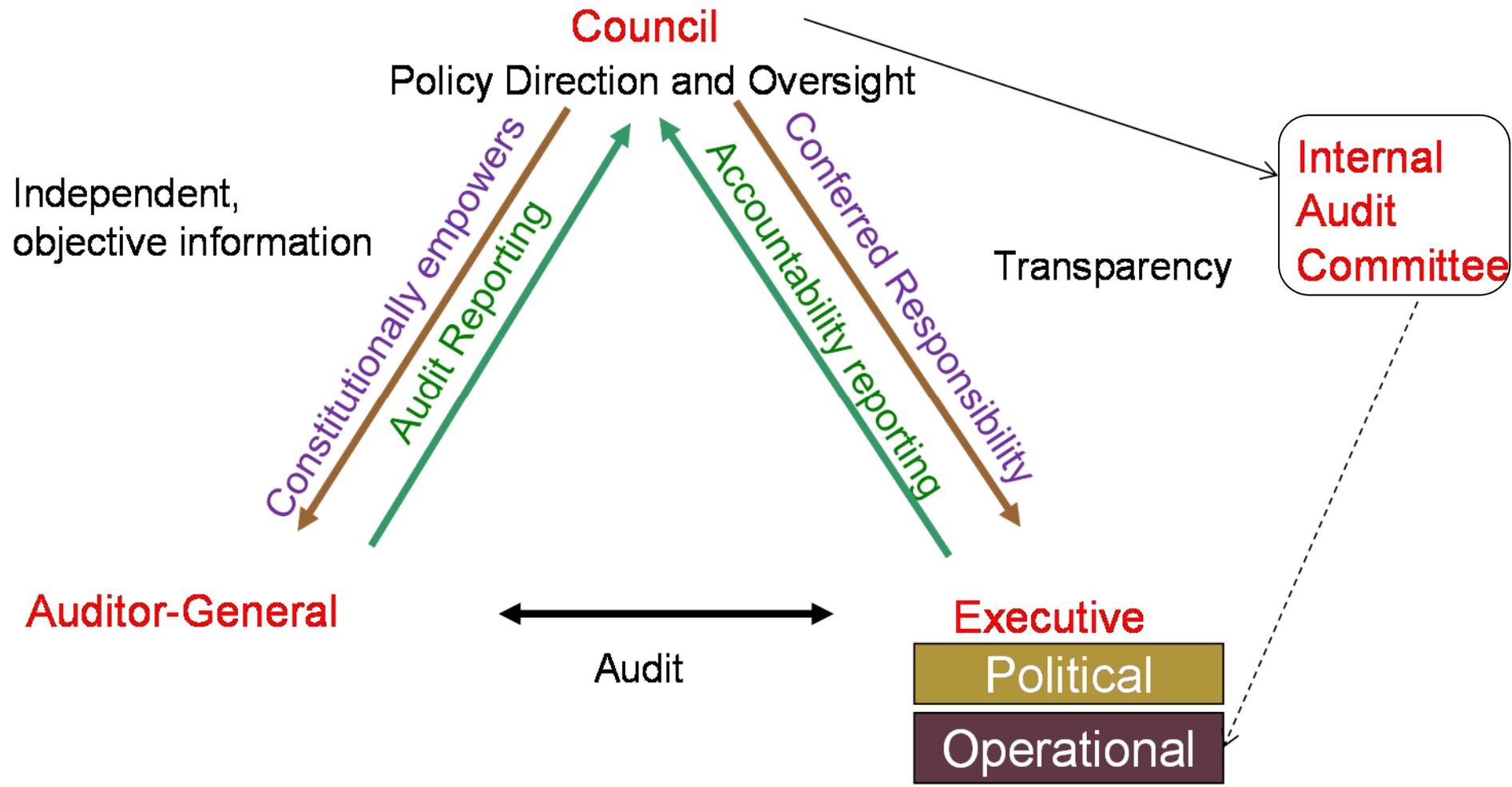


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MFMA

- 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

Separation of Powers and Roles and Responsibilities





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Financial Oversight: Role of Council

- **The Municipal Council is responsible for oversight of all finance and finance management related matters**
- To facilitate this the council may choose to establish subcommittees, including
 - Finance Committee
 - Usually considers the tabled budget and adjustments budgets
 - Municipal Public Accounts Committee (where they are established)
 - Usually considers the annual financial statements
 - May also consider unauthorised expenditure
 - The Oversight Committee
 - Responsible for reviewing the annual report



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Governance and Ethics

- Council has a duty to prevent corruption
- Code of Conduct for Councilors, forbids:
 - Interfering in municipal administration
 - Obstructing the implementation of council decisions
 - Encouraging maladministration
- Councillors are restricted from using their positions to improperly benefit themselves or others from municipal contracts
- Councillor may not do business with any municipality
- A councillor who is full-time may not undertake any other paid work except with the expressed written approval of council



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Mayor and Accounting Officer

- **Mayor**
 - Provides political guidance to IDP and budget processes
 - Recommends appointment of MM, CFO and senior managers
 - Certain financial expenditure decisions, e.g. unforeseen and unavoidable expenditure
- **Accounting officer (Municipal Manager)**
 - Directly responsible for all financial management aspects of the municipality
 - Setting up financial management processes and systems
 - Ensuring all systems are fully functional
 - Implementing the budget in accordance with the MFMA



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Internal Auditing

- Internal auditing is a powerful financial management tool which provides regular, independent, and ongoing assessments of all aspects of the municipal administration
- Internal Audit Unit (IAU)
 - Evaluates control systems and ensure strategies for Risk Management are in place
 - Internal audit function must be independent reporting to the MM
 - Reports quarterly to audit committee
 - External audit must be able to rely on work of internal audit
- Benefits of Internal Audit Unit
 - Improve transparency, accountability & efficiency
 - Discourage fraud & corruption
 - Enhance service delivery



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External Auditing

- Auditor General acts as external auditor (S188 of Constitution) and operates in terms of the Public Audit Act
- Audit Opinions
 - Unqualified – the best
 - Qualified – good, but with issues that need to be addressed
 - Adverse – very bad and implies there was an attempt to mislead
 - Disclaimer – very bad and information is not available at all
- What is my responsibility as councillor in preparation for External Auditing?
 - Ensure audit reports comprehensively studied
 - Ensure municipality has appropriate Performance Management systems, processes and frameworks in place



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Audit Committee

- Each municipality must appoint an Audit Committee in terms of the MFMA (S166)
- This is an independent advisory body to Municipal Council, politicians, MM and management staff on matters:
 - Internal financial control and internal audit
 - Risk management
 - Accounting policies
 - Adequacy, reliability and accuracy of financial information & reporting
 - Performance management
 - Effective governance
 - Performance evaluation
 - Compliance with legislation
- Audit committee must review annual financial statements
- Provide Council with authoritative and credible view of financial position



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Roles and Responsibilities

- **Political accountability**

- Council and Mayors

- define outcomes
- approve policies / by-laws
- allocate resources
- evaluate policy
- hold managers accountable

- **Managerial accountability**

- Senior management

- begins with a performance contract
- decide on methods
- control over use of resources
- accountable for outputs
- collect information to measure performance

Good governance = respect for this division of roles and responsibilities



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Video Clip One

- This video clip contains an interview with the former Speaker of the legislature at the City of Johannesburg
- The City of Johannesburg has revised its governance model to give stronger effect to the separation of powers
- The City of Johannesburg is one of the fore-runners in introducing a governance model that is more in line with provincial and national government
- The clip explores what this means for councillors?
- What do you think the separation of powers means for local government?
- What do you think the separation of powers means for councillors?



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Session three : Planning and budgeting process

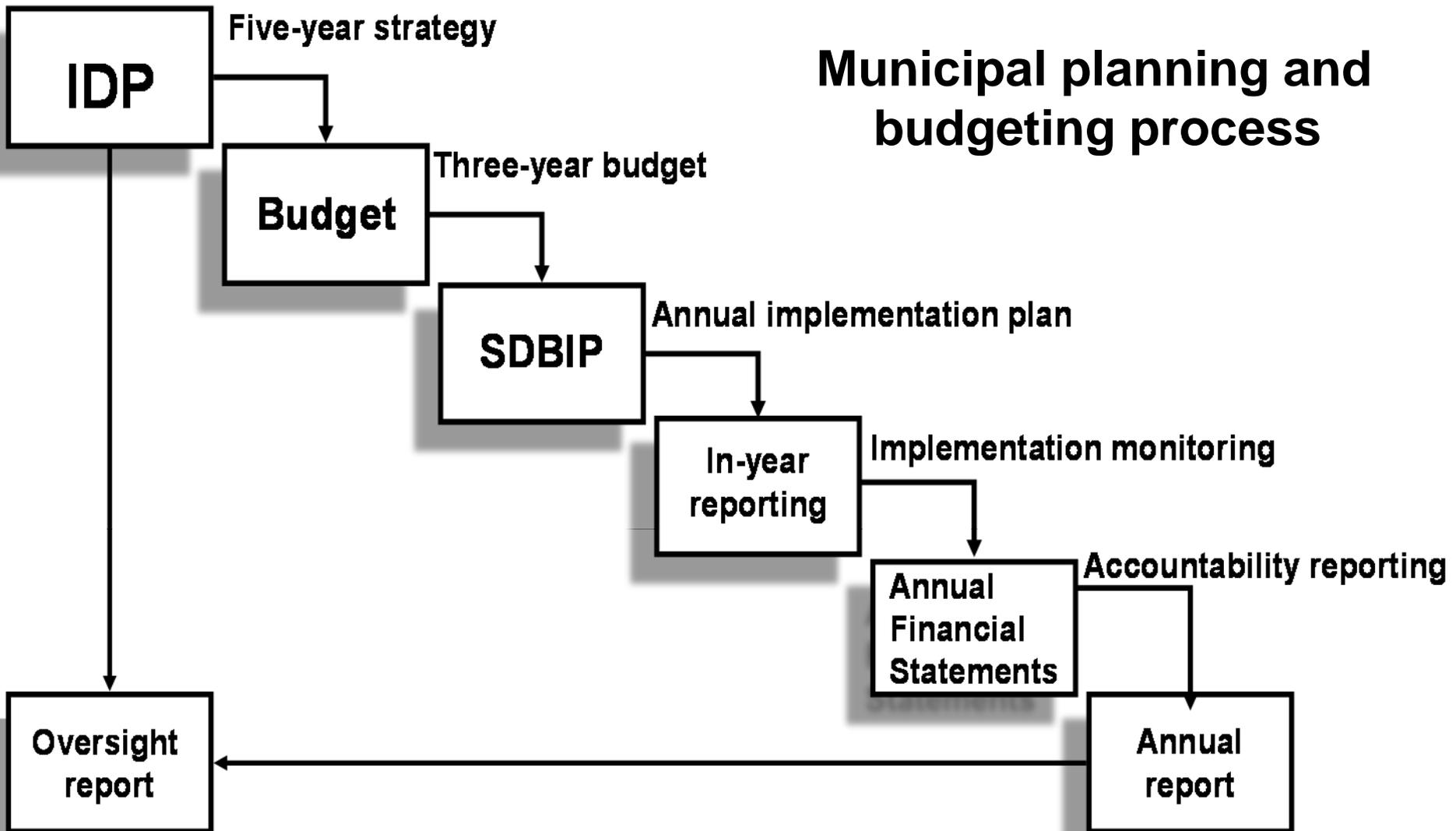


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Contents

- Municipal planning and budgeting processes
- Alignment with national priorities and outcomes
- Linking IDPs to budget and SDBIP
- Timelines for planning and budgeting

Municipal planning and budgeting process



Accuracy of information depends on:

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



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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 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



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Video Clip Two: National Priorities and Outcomes

- This video clip introduces government's priorities and outcome areas
- It also includes commentary from a former mayor who emphasises what this means for local government
- What do you think this means for local government?
- What do you think this means for you as a councillor?

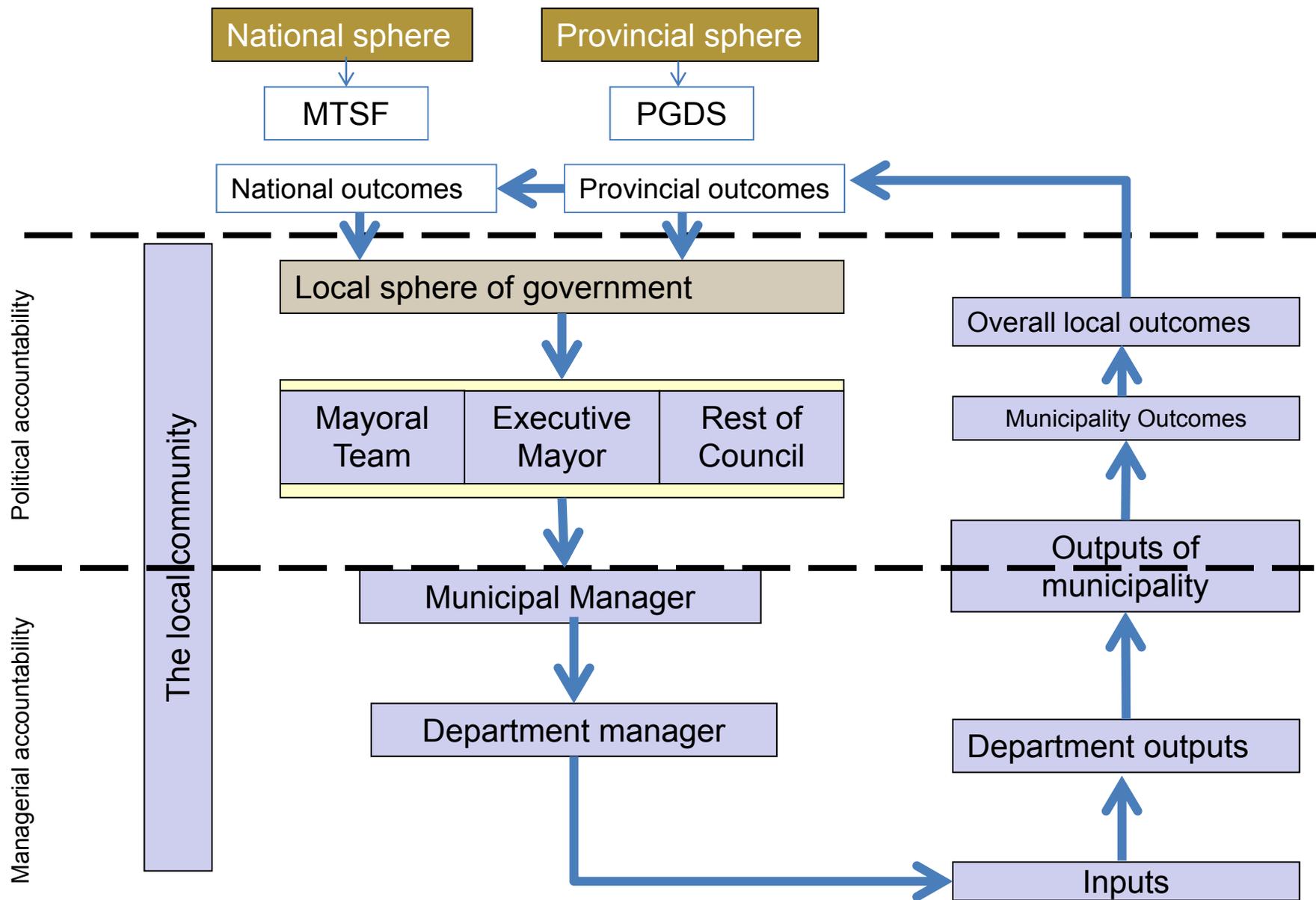


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What is Involved in the Budget Process?

- 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

Planning and Budgeting Alignment between Spheres of Government





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Integrated Development Plans

- IDP is the municipality's strategic planning document
- Presents the municipality's social and economic development plans
- Takes into account contributions by all stakeholders including government, business, communities and other relevant stakeholders
- Financial plan must be included in IDP
 - This means that financial and service delivery plans must be integrated
- IDP must contain key performance indicators & targets



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Service Delivery Business Implementation Plan (SDBIP)

- Practical Tool integrating IDP, Budget, Reporting & Performance Management
- Detailed Plan
- Approved by Mayor for Implementation
- Municipal / Top-Layer SDBIP
- Departmental SDBIP

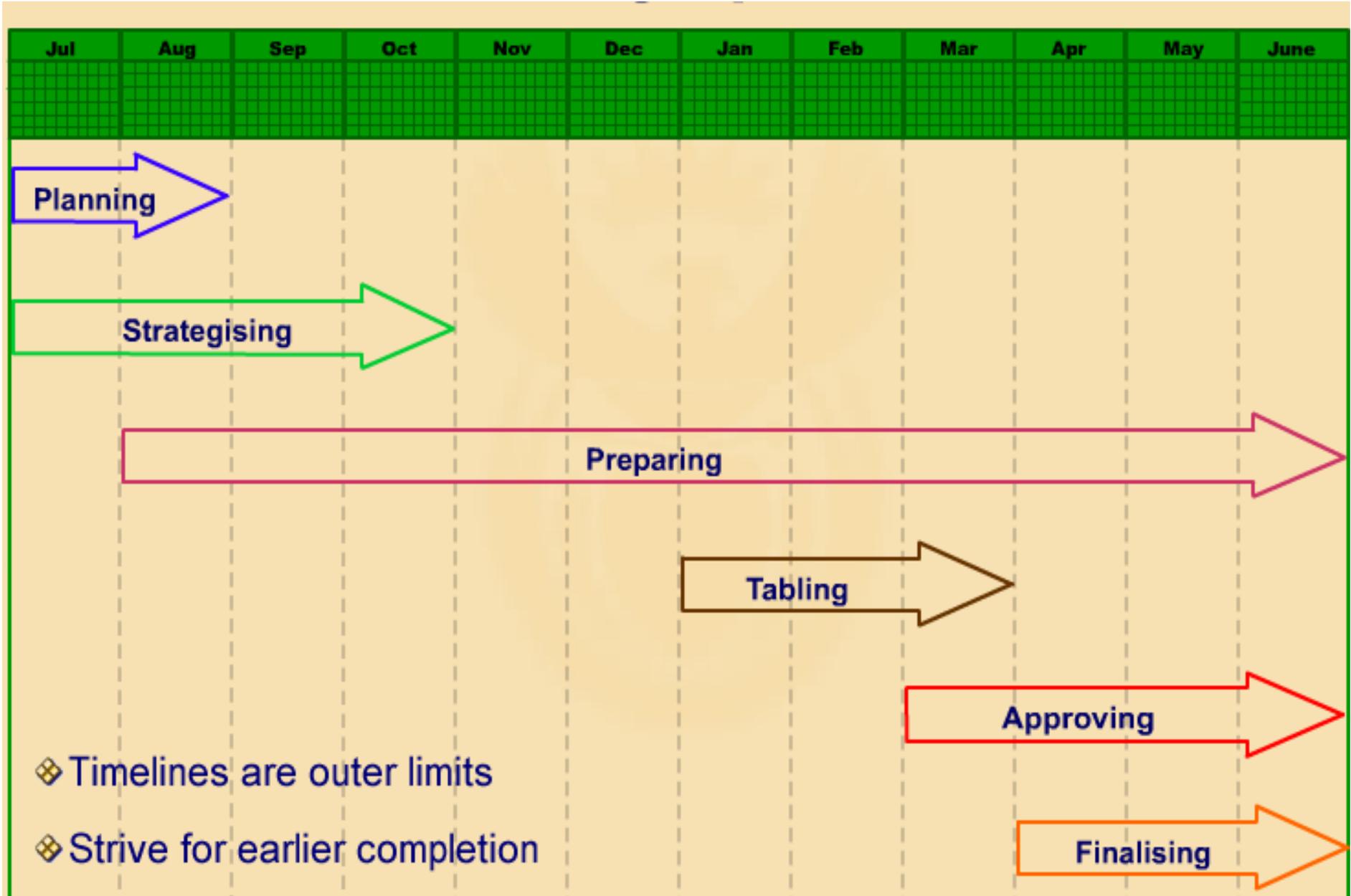


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Prescribed Timelines for Budget Process

- Timelines are set out in the MFMA:
 - Mayor must draw-up a time-table for the IDP and budget processes which must be tabled in council ten months before the start of the new financial year
 - Mayor must table the municipal budget for the new financial year in council before 31 March
 - After the community consultation process the mayor may table changes to the tabled budget. Council must then begin to consider the budget for adoption on 1 June
 - The council **MUST** approve the municipal budget before the start of the new financial year, 1 July
- Failure to approve the municipal budget by 1 July will result in an intervention in the municipality and possible dissolution of Council

Budget Process Timeline





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Video Clip Three: Madibeng Case Study

- This video clip interviews the former mayor of Madibeng Municipality
- She addresses their challenge of overcoming a financial recovery process
- She emphasises the need to have a firm grasp of revenue in relation to the expenditure
- She also emphasises the value of continuous engagement with, provincial depts, National Treasury, and DCOG
- What does this mean for other local governments and service delivery?
- What does this mean for your role as a councillor?



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Session Four: Budgets, budget reforms & division of revenue



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Contents

- What is a budget?
- Prioritising basic needs
- Operating and capital budgets
- Ensuring a sustainable budget
 - Funding and Grants
- Budget content and format
- Role of Council in the budget



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What is a Municipal Budget?

- A budget is a plan to get resources (planned revenue), and to use those resources (planned expenditure) to meet the objectives of the municipality.
- The budget must:
 - prioritise communities' basic needs
 - be funded
 - be sustainable
 - be in the prescribed format
- There must be NO:
 - Irregular and fruitless and wasteful expenditure
 - Unauthorised expenditure

“The budget is not about numbers it is about people”



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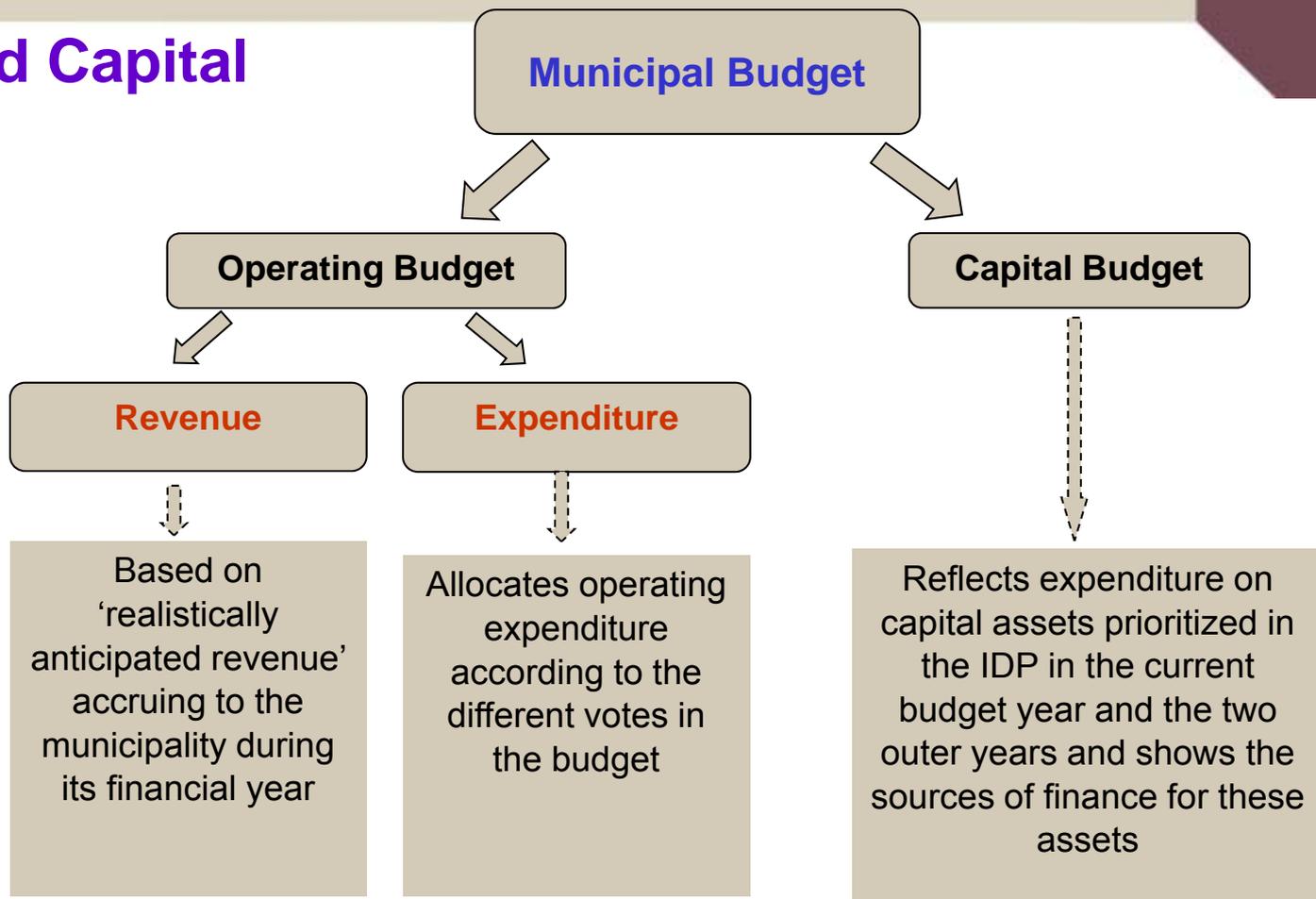
The Budget must Prioritise Communities' Basic Needs

- Section 153 of the Constitution
 - Developmental duties of municipalities
- A municipality must –
- structure and manage its administration and budgeting and planning processes to **give priority to the basic needs of the community**, and to promote the social and economic development of the community, and
 - Participate in national and provincial development programmes
- Ensure spending is aligned to the priorities of the IDP
 - Ensure choices and trade-offs are in the interests of the community
 - Prevent non-priority spending



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Operating and Capital Budget





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**A budget must be funded.
You cannot spend money
you do not have**

The Budget must be Sustainable

- Adequate cash coverage – Municipality should have enough cash to pay suppliers
- Sustainable revenue management
 - proper billing and collection
 - fair rates and taxes that cover the cost to provide services
 - fair and well-managed indigents policy (assistance to the poor)
- Renewal and maintenance of existing assets to preserve current income generating capacity
- Budgets must be used for municipal assigned functions (avoid unfunded mandates)
- Run a municipality like a business
 - generating surplus to fund backlogs or
 - improve efficiency in expenditure



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How do we Fund the Budget?

- Sources of funding for the operating budget
 - Own revenue:
 - Rates and taxes
 - Service charges
 - Transfers
 - Equitable share
 - National and provincial grants
 - Borrowing (only for capital infrastructure)
 - Public contributions and donations



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Grants as a Source of Funding

- Grants are approved by gazetting in DORA and provincial gazettes
 - Only include gazetted amounts in the budget, no promises
- Equitable share – this is unconditional funds that are included in municipality own pool of funds
- Conditional grants – must be used for a specific purpose specified in the conditions e.g. municipal infrastructure grant to address backlogs
 - Non compliance or under spending may result in municipality having to return funds to the National Revenue Fund



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Budget Content and Formats

- Municipal budgets must be in the format of **Schedule A**, as set out in the ***Municipal Budget and Reporting Regulations***
- **Part 1 covers**
 - Mayor's report
 - Resolutions
 - Executive summary
 - Annual budget tables (top level formats – Schedule A1)
 - **Schedule A contains the amounts to be approved**
- **Part 2 provides more details on a range of relevant issues**



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Annual Budget Tables

- Table A1 - Summary of the municipal budget
- Table A2 - Budgeted Financial Performance by Standard Classification (function)
- Table A3 - Budgeted Financial Performance Revenue & Expenditure by Municipal Vote
- Table A4 - Budgeted Financial Performance by Standard Item
- Table A5 - Budgeted Capital Expenditure by Vote, Standard Classification and Funding
- Table A6 - Budgeted Financial Position
- Table A7 - Budgeted Cash Flow
- Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation
- Table A9 - Asset Management
- Table A10 - Basic Service Delivery Measurement

Table A1 –Budget Summary (1)

Description	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
R thousands									
Financial Performance									
Property rates	1 751 890	2 228 766	2 357 115	2 982 851	2 851 601	2 851 601	3 088 356	3 440 147	3 835 764
Service charges	4 246 218	4 765 454	5 489 104	7 182 671	7 183 539	7 183 539	8 492 829	9 866 101	11 466 027
Investment revenue	134 187	135 555	122 500	123 376	125 996	125 996	120 080	64 139	71 375
Transfers recognised - operational	460 061	642 009	587 082	836 817	789 624	789 624	1 001 918	1 118 355	1 217 891
Other own revenue	1 566 889	1 779 541	2 299 020	2 058 736	2 160 667	2 160 667	2 435 435	2 608 992	2 775 223
Total Revenue (excluding capital transfers and contributions)	8 159 246	9 551 324	10 854 820	13 184 451	13 111 426	13 111 426	15 138 618	17 097 734	19 366 281
Employee costs	2 667 809	2 999 127	3 295 744	3 520 655	3 562 430	3 562 430	4 048 486	4 354 598	4 685 963
Remuneration of councillors	45 946	44 201	55 351	57 963	57 963	57 963	66 438	72 880	79 961
Depreciation & asset impairment	707 591	661 292	601 797	905 625	841 709	841 709	912 331	978 067	1 139 451
Finance charges	364 383	372 545	519 535	518 153	632 076	632 076	715 617	762 736	805 284
Materials and bulk purchases	2 493 150	2 773 510	3 074 275	3 849 066	3 838 062	3 838 062	5 073 575	6 219 416	7 615 165
Transfers and grants	210 111	276 025	316 711	416 934	415 934	415 934	443 901	506 493	585 392
Other expenditure	1 679 521	2 495 137	2 838 012	3 317 720	3 169 915	3 169 915	3 419 574	3 644 368	3 901 970
Total Expenditure	8 168 512	9 621 837	10 701 424	12 586 117	12 518 090	12 518 090	14 679 924	16 538 558	18 813 187
Surplus/(Deficit)	(9 267)	(70 513)	153 395	598 334	593 337	593 337	458 694	559 176	553 095
Transfers recognised - capital	352 011	408 554	750 269	1 350 317	961 204	961 204	1 041 051	1 115 022	1 201 896
Contributions recognised - capital & contributed assets	46 834	44 440	51 609	77 590	27 751	27 751	56 261	49 741	68 369
Surplus/(Deficit) after capital transfers & contributions	389 578	382 482	955 274	2 026 240	1 582 292	1 582 292	1 556 006	1 723 939	1 823 360
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year	389 578	382 482	955 274	2 026 240	1 582 292	1 582 292	1 556 006	1 723 939	1 823 360
Capital expenditure & funds sources									
Capital expenditure	1 365 844	1 757 876	2 678 286	3 477 470	2 676 933	2 676 933	2 614 449	3 136 114	2 918 125
Transfers recognised - capital	352 011	408 554	750 269	1 350 317	961 204	961 204	1 041 051	1 115 022	1 201 896
Public contributions & donations	46 834	44 440	51 609	77 590	27 751	27 751	56 261	49 741	68 369
Borrowing	641 450	295 900	1 606 944	800 000	1 051 000	1 051 000	1 000 000	1 000 000	1 000 000
Internally generated funds	325 549	1 008 982	269 464	1 249 563	636 978	636 978	517 137	971 351	647 860
Total sources of capital funds	1 365 844	1 757 876	2 678 286	3 477 470	2 676 933	2 676 933	2 614 449	3 136 114	2 918 125

Table A1 –Budget Summary (2)

Description	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
R thousands									
Financial position									
Total current assets	3 050 935	2 906 501	3 729 815	3 888 581	4 718 453	4 718 453	5 364 537	5 514 943	5 887 512
Total non current assets	10 161 102	10 728 642	13 650 734	16 361 607	15 461 264	15 461 264	17 698 224	20 188 359	22 749 394
Total current liabilities	2 561 844	2 812 737	3 812 544	3 752 375	3 999 742	3 999 742	4 569 280	5 134 444	5 600 344
Total non current liabilities	2 712 146	3 587 629	5 192 258	5 662 585	6 005 177	6 005 177	6 422 108	6 760 320	7 053 071
Community wealth/Equity	7 938 046	7 234 776	8 375 746	10 835 228	10 174 798	10 174 798	12 071 372	13 808 538	15 983 491
Cash flows									
Net cash from (used) operating	997 807	1 407 901	1 405 453	2 737 275	2 395 279	2 395 279	2 591 627	2 981 572	3 161 024
Net cash from (used) investing	(1 299 883)	(1 749 901)	(2 741 309)	(3 421 729)	(2 570 996)	(2 570 996)	(2 448 450)	(3 297 973)	(3 197 382)
Net cash from (used) financing	458 109	(30 833)	1 343 709	446 076	697 076	697 076	330 632	244 700	192 190
Cash/cash equivalents at the year end	520 699	147 866	155 720	(82 659)	677 079	677 079	1 150 887	1 079 186	1 235 018
Cash backing/surplus reconciliation									
Cash and investments available	931 983	573 419	656 066	1 007 620	1 381 618	1 381 618	1 755 426	1 933 725	2 439 557
Application of cash and investments	1 435 490	1 601 863	1 996 730	2 918 414	2 333 273	2 333 273	1 975 553	2 079 353	2 180 262
Balance - surplus (shortfall)	(503 507)	(1 028 444)	(1 340 664)	(1 910 793)	(951 655)	(951 655)	(220 126)	(145 628)	259 295
Asset management									
Asset register summary (WDV)	9 138 300	10 024 592	12 823 004	15 166 326	14 473 146	14 473 146	16 590 206	18 733 702	20 842 071
Depreciation & asset impairment	707 591	661 292	601 797	905 625	841 709	841 709	912 331	978 067	1 139 451
Renewal of Existing Assets	1 230 766	1 412 916	1 751 341	1 790 814	1 492 394	1 492 394	1 216 814	1 595 194	1 583 420
Repairs and Maintenance	727 352	894 629	1 125 506	1 609 287	1 545 030	1 545 030	1 690 116	1 809 430	1 935 894
Free services									
Cost of Free Basic Services provided	201 819	264 440	306 877	403 370	403 370	403 370	425 901	487 493	565 392
Revenue cost of free services provided	299 414	369 228	426 345	637 743	637 743	637 743	682 441	781 343	920 790
Households below minimum service level									
Water:	15 793	10 037	4 280	2 722	2 722	2 722	1 731	1 101	700
Sanitation/sewerage:	15 106	13 698	12 289	11 359	11 359	11 359	10 514	9 748	9 050
Energy:	77 595	65 194	52 792	51 073	51 073	51 073	49 172	47 078	40 976
Refuse:	168 227	145 111	121 991	106 009	106 009	106 009	94 569	86 636	81 444



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Table A1 – Budget Summary

- Table A1 provides a summary of the municipal budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
- Provides an overview of the amounts approved by Council



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Tables A2, A3 & A4 Budgeted Financial Performance

- **Note these three tables present the municipal operating budgeting from three different perspectives:**
- **A2 – ‘Standard classification’** is an international classification and refers to Government Finance Statistics (GFS) reporting structure
 - Standard classifications facilitates easier comparisons between municipalities locally and internationally and allow for the calculation of surplus/ deficit positions on different services.
 - Enables consolidation of info on national level.
- **A3 – Vote of the municipality**
 - A Vote shows the revenue and expenditure for an organisational unit of the municipality, e.g. the water department
- **A4 – Standard item: revenue by source and expenditure by category**
 - Highlights where funds come from, and what items that get bought



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Table A5 Budgeted Capital Expenditure

- This table provides 2 perspectives of capital expenditure according to:
 - Municipality's own organisational (vote) structure
 - Standard classification (GFS function)
- Shows funding sources
 - Transfers
 - Borrowing
 - Internally generated funds
 - Contributions and donations



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Table A6 Budgeted Financial Position

- Shows the budgeted balance sheet of the municipality
 - total assets and liabilities of the municipality
 - shows the net 'worth' of the municipality
 - banks normally base lending decisions on the strength of the balance sheet



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Table A7 Budgeted Cash Flow

- revenue does not = cash in the bank
- shows expected cash in-flows versus cash out-flows that are likely to result from the implementation of the municipality's budget.
- a municipality can only spend cash, so this table is critical to assessing whether the budget is funded

Table A8 Cash Backed Reserves Reconciliation

- Compares cash position to the financial obligations of the municipality (reserves, working capital, unspent conditional grants)
- If the net cash position is negative, it means the budget is not funded - and so revenue must be increased or spending decreased



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Table A9 Asset Management

- Shows capital spending by type of asset
- Shows spending on new assets versus renewal of existing assets
- Spending on repairs and maintenance by type of asset

Table A10 Basic Service Delivery Measurement

- Shows overview of service delivery levels, including backlogs (below minimum service level), for each of the main services
- Looks at the cost of providing *free basic services*
- Looks at the revenue cost of providing *free services*

Description	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Outcome	Outcome	Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Household service targets (000)									
<i>Water:</i>									
Piped water inside dwelling	429	525	620	659	659	659	695	730	764
Piped water inside yard (but not in dwelling)	125	106	86	73	73	73	62	52	45
Using public tap (at least min.service level)	113	58	3	1	1	1	1	0	0
Other water supply (at least min.service level)	4	2	-	-	-	-	-	-	-
<i>Minimum Service Level and Above sub-total</i>	671	690	709	733	733	733	758	783	809
Using public tap (< min.service level)	-	-	-	-	-	-	-	-	-
Other water supply (< min.service level)	16	10	4	3	3	3	2	1	1
No water supply	-	-	-	-	-	-	-	-	-
<i>Below Minimum Service Level sub-total</i>	16	10	4	3	3	3	2	1	1
Total number of households	687	700	713	736	736	736	760	784	810
<i>Sanitation/sewerage:</i>									
Flush toilet (connected to sewerage)	490	509	528	555	555	555	584	612	642
Flush toilet (with septic tank)	12	12	12	11	11	11	11	11	10
Chemical toilet	10	10	10	9	9	9	9	9	8
Pit toilet (ventilated)	139	134	130	126	126	126	122	118	115
Other toilet provisions (> min.service level)	21	21	22	23	23	23	23	24	25
<i>Minimum Service Level and Above sub-total</i>	672	686	701	725	725	725	749	774	800
Bucket toilet	5	5	4	4	4	4	3	3	2
Other toilet provisions (< min.service level)	-	-	-	-	-	-	-	-	-
No toilet provisions	10	9	8	8	8	8	7	7	7
<i>Below Minimum Service Level sub-total</i>	15	14	12	11	11	11	11	10	9
Total number of households	687	700	713	736	736	736	760	784	810
<i>Energy:</i>									
Electricity (at least min.service level)	483	503	523	535	535	535	549	561	579
Electricity - prepaid (min.service level)	126	132	138	149	149	149	162	175	190
<i>Minimum Service Level and Above sub-total</i>	609	635	661	685	685	685	710	737	769
Electricity (< min.service level)	-	-	-	-	-	-	-	-	-
Electricity - prepaid (< min. service level)	-	-	-	-	-	-	-	-	-
Other energy sources	78	65	53	51	51	51	49	47	41
<i>Below Minimum Service Level sub-total</i>	78	65	53	51	51	51	49	47	41
Total number of households	687	700	713	736	736	736	760	784	810
<i>Refuse:</i>									
Removed at least once a week	518	555	591	630	630	630	665	697	728
<i>Minimum Service Level and Above sub-total</i>	518	555	591	630	630	630	665	697	728
Removed less frequently than once a week	11	25	39	42	42	42	45	48	51
Using communal refuse dump	14	9	4	3	3	3	2	1	1
Using own refuse dump	100	79	58	46	46	46	36	28	23
Other rubbish disposal	4	2	1	0	0	0	0	0	0
No rubbish disposal	38	29	20	15	15	15	12	9	7
<i>Below Minimum Service Level sub-total</i>	168	145	122	106	106	106	95	87	81
Total number of households	687	700	713	736	736	736	760	784	810

GT485 Batho Pele City - Table A10 Basic service delivery measurement									
Description	2007/8	2008/9	2009/10	Current Year 2010/11			2011/12 Medium Term Revenue & Expenditure Framework		
	Outcome	Outcome	Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Households receiving Free Basic Service									
Water (6 kilolitres per household per month)	671	690	709	733	733	733	758	783	809
Sanitation (free minimum level service)	42	47	53	90	90	90	90	95	105
Electricity/other energy (50kwh per household per month)	42	47	53	90	90	90	90	95	105
Refuse (removed at least once a week)	42	47	53	90	90	90	90	95	105
Cost of Free Basic Services provided (R'000)		-	-	-	-	-	-	-	-
Water (6 kilolitres per household per month)	169,092	223,560	255,240	296,755	296,755	296,755	300,168	338,256	379,080
Sanitation (free sanitation service)	4,106	5,002	6,314	10,316	10,316	10,316	12,583	14,363	17,283
Electricity/other energy (50kwh per household per month)	18,560	23,466	29,251	64,590	64,590	64,590	78,580	95,470	121,558
Refuse (removed once a week)	10,060	12,411	16,072	31,710	31,710	31,710	34,570	39,403	47,471
Total cost of FBS provided (minimum social package)	201,819	264,440	306,877	403,370	403,370	403,370	425,901	487,493	565,392
Highest level of free service provided									
Property rates (R value threshold)	10,000	10,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Water (kilolitres per household per month)	6	6	6	6	6	6	6	6	6
Sanitation (kilolitres per household per month)	6	6	6	6	6	6	6	6	6
Sanitation (Rand per household per month)	15	15	16	18	18	18	20	22	24
Electricity (kwh per household per month)	50	50	50	50	50	50	50	50	50
Refuse (average litres per week)	85	85	85	85	85	85	85	85	85
Revenue cost of free services provided (R'000)									
Property rates (R15 000 threshold rebate)	6,197	6,736	7,204	13,730	13,730	13,730	15,107	17,228	20,756
Property rates (other exemptions, reductions and rebates)	54,870	59,357	64,840	123,566	123,566	123,566	135,959	155,054	186,800
Water	197,552	258,662	294,699	371,929	371,929	371,929	382,881	432,604	492,747
Sanitation	7,998	8,508	10,317	19,686	19,686	19,686	21,845	24,936	30,006
Electricity/other energy	22,305	24,742	34,740	80,136	80,136	80,136	95,364	115,862	147,522
Refuse	10,494	11,223	14,545	28,697	28,697	28,697	31,285	35,659	42,960
Municipal Housing - rental rebates		-	-	-	-	-	-	-	-
Housing - top structure subsidies		-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-	-
Total revenue cost of free services provided (total social package)	299,414	369,228	426,345	637,743	637,743	637,743	682,441	781,343	920,790



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Adjustments Budget

- A municipality may only revise its annual budget for sound reasons and within the prescribed timeframes set-out in the MFMA and Municipal Budget and Reporting Regulations
- Only ONE main adjustments budget permitted per year – in January
- Legally, the new Council may not revise the approved budget outside the prescribed adjustment budget processes
- Unforeseen and unavoidable expenditure is governed by section 29 of the MFMA and regulation 73 of the Municipal Budget and Reporting Regulations
 - only permitted in very specific circumstances



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Role of Council in the Budget

- Councillors provide critical link between municipality and the community
 - Community consultation and feedback
 - Refer community needs to appropriate sphere of government
- Approve a budget process
- Reviewing policy choices and trade-offs in the budget
- Consider whether borrowing is necessary to fund the budget
- Review By-laws e.g. enabling tariff setting
- Approving the budget and budget related policies e.g. tariff setting and credit control
- Monitoring the implementation of the budget via reports to evaluate performance
- Oversight over the Mayor and MMCs



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Video Clip Four: Budgeting

- This video clip provides insight from National Treasury on some of the key issues to be considered when drawing up and managing a budget
- It also contains insight from a former Mayor and MMC for Finance on their experience of the budgeting process, and what is of critical importance and what are priorities
- As you listen to the video, note down the key words that are raised by the interviewees
- Spend a moment reflecting on why these issues are important and what they could mean for your council
- Also, what do they mean for you as a councillor?



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Session Five: Financial management and internal control systems



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Contents

- Elements of financial management
- Role of council in oversight of financial management
- Revenue and cash flow management
- Risk management
- Supply chain management
- Asset management
- Expenditure management
 - Fruitless and wasteful expenditure
 - Irregular expenditure
 - Unauthorised expenditure



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Elements of Financial Management

- Municipal Financial Management includes:
 - having and implementing appropriate budget related and financial management policies
 - 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



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Role of Council in Oversight of Financial Management

- Reviewing policy decisions for cost implications
- Reviewing and approving IDP and budgets
- Reviewing financial management processes
- Monitoring implementation of policy, plans and budgets, as well as the functioning of all municipal systems
- Evaluating financial statements and annual reports
- Holding the Mayor and MM accountable



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Revenue and Cash Flow Management

- Earn income to pay for service delivery and pay salaries
- Councillors need to:
 - Ensure revenue and cash flow management are prioritised
 - Review policies related to:
 - Setting of tariffs
 - Debtor management
 - Cash management
 - Indigents
 - Provide support to creating a 'culture of payment'
 - **Lead by example: councillors may not be in arrears (Code of Conduct)**



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Risk Management

- Risk management entails knowing what risks face the municipality, and the community
- And developing strategies to address those risks – within the mandate of the municipality
 - E.g. state of sewerage treatment plants – requires budget to upgrade



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Asset Management

- Capital assets of a municipality are crucial to service delivery
- Council through its oversight needs to ensure:
 - Asset registers are in place and maintained
 - Processes are in places to manage the whole life-cycle of an asset
 - Planning, purchase, use, safeguarding, maintenance and disposal
 - Planned repairs and maintenance
 - Renewal of existing assets
 - New assets of acceptable quality are built



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Supply Chain Management

- Have a multi-year budget – so as to ensure capital projects can go out to tender as soon as the budget is approved – so as not to delay spending
- Ensure honesty and integrity in the use of municipal funds:
 - Municipality may not procure goods and services from persons in service of the state (this includes both councillors and officials)
 - Ensure conflicts of interest are properly recorded and managed
 - Councillors forbidden from interfering with tender processes (criminal offence) but may report irregularities to the Auditor-General
- Ensure proper implementation of government's BEE and SMME objectives
 - System prescribed in Preferential Procurement Policy Framework Act
- Check the National Treasury Database of Restricted Suppliers



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Expenditure Management

- All expenditure must be in terms of an approved budget
 - If the annual budget is not approved before the start of the municipal financial year, the municipality may not spend any funds
- Accounting officer and senior management responsible for ensuring expenditure is authorised:
 - in terms of an approved budget
 - in terms of the SCM policy of Council
 - NOT fruitless and wasteful
- Mayors and councillors may only instruct expenditures to be made through the budget (if its not in an approved budget, don't ask)
- Mayors may approve unforeseen and unavoidable expenditure within the framework prescribed by regulation 73 of the Municipal Budget and Reporting Regulations



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Fruitless and Wasteful Expenditure

- Expenditure that was made in vain and would have been avoided had reasonable care been exercised
- Examples:
 - Paying deposit for a venue and not using it and losing the deposit
 - What are the other examples of fruitless and wasteful expenditure?

Irregular Expenditure

- Expenditure that contravenes the MFMA, the Systems Act, Public Office-Bearers Act, or any of the municipality's policies or By-laws
- Examples
 - Awarding a contract that was not subjected to tender procedures
 - Benefits not provided for in the Public Office Bearers Act



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Recovery and Writing-off of such Expenditures

- Council does not have the authority in law to authorise
 - irregular expenditure
 - fruitless and wasteful expenditure
- The municipality must recover such expenditure from the person responsible for making it or approving it
- A council committee must investigate the recoverability of expenditure taking into consideration regulation 74 of the Municipal Budget and Reporting Regulations
- If found to be irrecoverable, the committee may recommend that council writes it off



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Unauthorised Expenditure

- Unauthorised expenditure means any expenditure that was not been budgeted for or that is unrelated to the municipal department's function
- Example
 - Overspending of budget of a vote
 - Using municipal funds to pay for unbudgeted projects
- A council committee (e.g. MPAC) must investigate the expenditure and may recommend to council that it:
 - Be authorised in an adjustments budget
 - Or recovered from the person responsible for making or approving the expenditure
 - Same process as for irregular expenditure, if it is irrecoverable



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Session Six: Monitoring, reporting & accountability

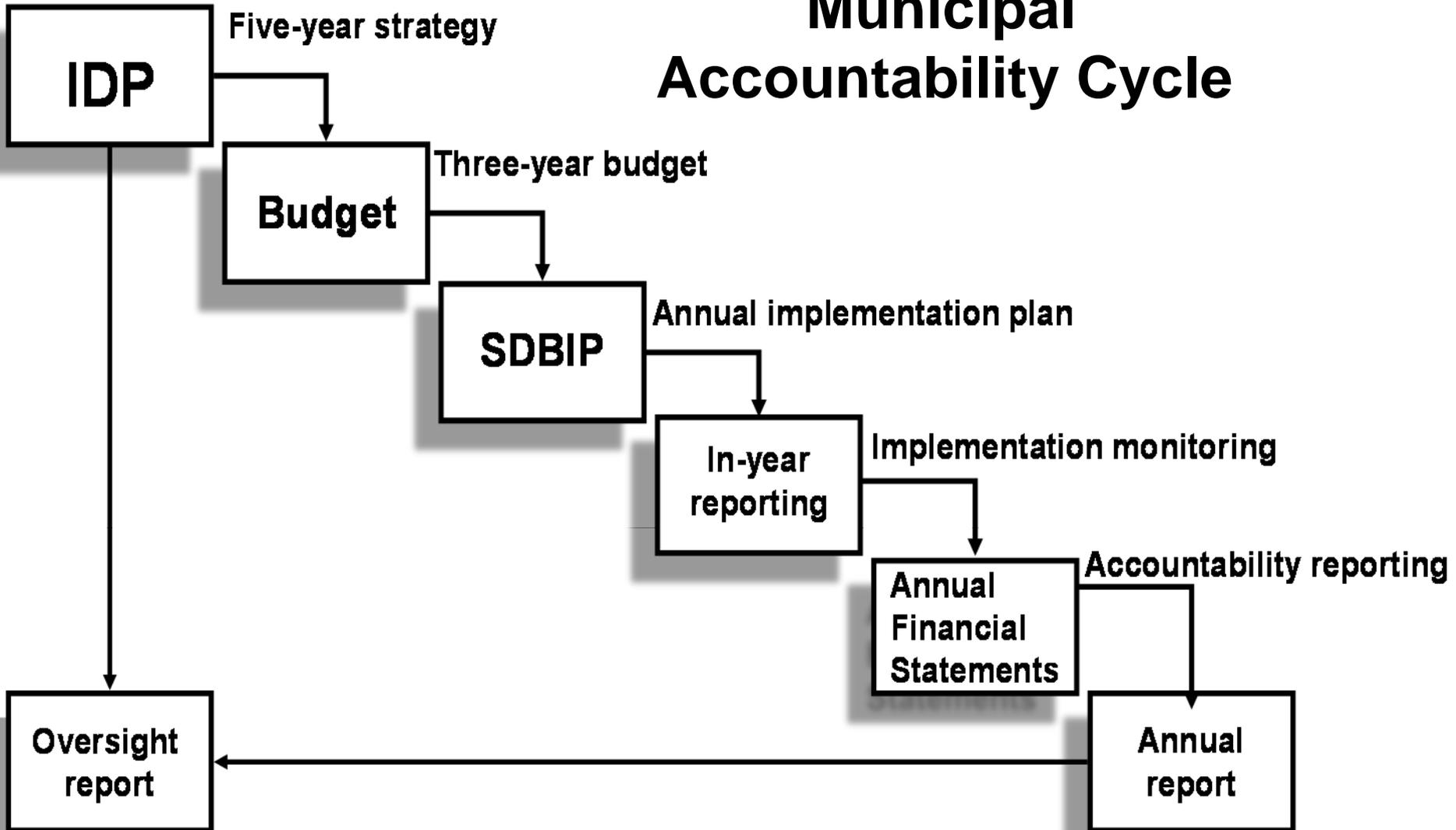


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Contents

- Golden circle of reporting
- Monthly budget statement
- Mayoral quarterly report
- Mid- year budget and performance assessment report
- Annual report
- Oversight report

Municipal 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



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Golden Circle of Reporting

- One integrated Process
 - Spatial development plans and other long term plans
 - IDP
 - Budget
 - SDBIP - Performance Agreements of Senior Officials
 - In-year Reports
 - Annual Report
 - Annual financial statements
 - Annual performance report
- Alignment of financial and performance information is absolutely critical



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Monthly Budget Statements (Section 71 Reports)

- 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



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Mayoral Quarterly Reports

- Report to council on the status of the implementation of the budget and the SDBIP
- Compares financial and service delivery performance against quarterly targets
- Council should read it



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Mid-Year Budget & Performance Assessment Report and Budget Adjustments

- Presents financial and service delivery performance for the first half of financial year
- Tabled in council by 25 January
- It takes into account
 - Monthly Budget Statement
 - Quarterly Service Delivery Performance
 - Past Year's Annual Report
 - Performance of Entities



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Annual Report

- Gives an account of all activities undertaken during the financial year
- It is the principle tool of accountability to council and to the community
- Must be aligned to the budget and the SDBIP
- Compares actual with planned performance
- Includes:
 - Annual financial statements
 - Annual performance report

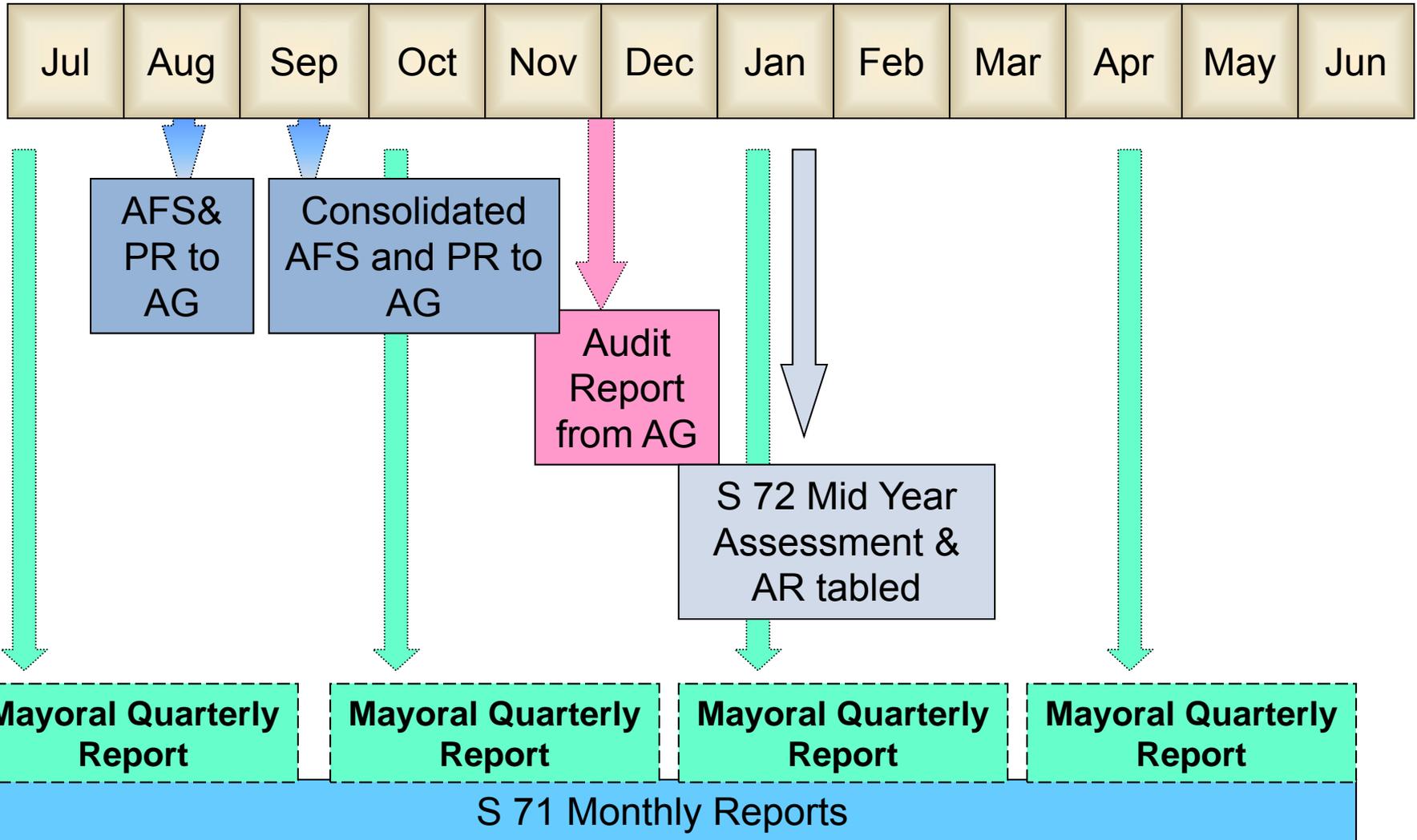


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Oversight Report

- Council to consider Annual Report and compile an Oversight Report within two months of the tabling of the Annual Report
- The purpose of the Oversight Report is to:
 - ***Review past performance so as to improve future performance***
 - ***Hold the Mayor and senior managers accountable (bonuses?)***
- The Council must indicate whether it:
 - Approves Annual Report, with or without reservations
 - Rejects Annual Report
 - Referred Annual Report back for those sections that require revision
- MFMA Circular 32

Reporting Cycle summary





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Session Five: Reflections

