Budgets

REGULATIONS AND FORMATS 2009

The Municipal Budget and Reporting Regulations ('Budget Regulations') came into operation in April 2009. They give further content to the Municipal Finance Management Act (MFMA) of 2004 and regulate issues such as municipal financial policies, the annual budget, adjustment budgets, in-year reporting and non-compliance with time provisions. Furthermore, the Budget Regulations aim to provide clearer and more stringent regulations around matters of unforeseen and unavoidable expenditure. They also deal with expenditure that is unauthorised, irregular and fruitless and wasteful.

The objective is to achieve 'secure sound and sustainable management of the budgeting and reporting practices of municipalities and their entities by establishing uniform norms and standards'. This article focuses on a specific part of the Budget Regulations, namely those provisions that deal with the budget steering committee, the annual budget and the adjustment budget.

Budget steering committee

The Budget Regulations require a mayor to establish a budget steering committee to assist the mayor in the execution of his or her financial strategic planning responsibilities, as outlined in section 53 of the MFMA. The responsibilities include providing political guidance and prioritising in relation to the budget, revising the IDP, approving the annual budget and service delivery budget implementation plan, drafting annual performance contracts for the municipality's senior management and the publication of specified information related to the budget and performance of the municipality. This steering committee should be a good mix of councillors and senior management, including the managers of budgeting, planning and infrastructure and bringing together political and administrative expertise. In requiring that the managers of budgeting, planning and infrastructure form part of the budget steering committee, the Budget Regulations expressly require that the correct administrative experts form part of the process.

Schedule A to G outlines formats for the budget and supporting documentation. The aim is to standardise the manner in which municipalities develop their budgets and guide them on what the budgets should contain.

The formats were not developed overnight. The National Treasury ran a pilot with 27 municipalities from across the country to prepare their 2009/10 budgets according to the new budget formats.

The annual budget

Funding reserves policy

Each municipality must have a *funding and reserves policy* to guide the formulation of the budget. This outlines assumptions and the methodology regarding anticipated revenue from all the different income streams, including funds that will be set aside in reserves. In developing its funding reserves policy the municipality is required to take into account the most recent trends, credit rating (if available), budget related policies and statutory requirements regarding funding reserves and transfer / disposal of assets. The funding reserves policy guides the municipality's funding of the annual budget.

Expenditure

Each municipality must have a budget in place that has been approved by the Council before the start of the financial year and it may only include transfers that are officially confirmed by the source of such revenue (regulation 10) and be available (regulation 11).

The tendency of a number of municipalities has been to start each budget formulation process without providing communities with sufficient context around past performance and future expectations. This hampers effective engagement from communities with the planning and budgeting process for their municipal spaces. As a consequence, public participation meetings often become empty conversations generating new wish lists to replace previous ones. The Budget Regulations provide the detail needed to guide the *budget consultation* process.

In terms of regulation 15 of the Budget Regulations the municipality must make public the budget and any other information the municipal council considers appropriate to facilitate the budget consultation process. This should include summaries of the annual budget, supporting documents in the predominant languages and information relevant to each ward. The information that is made public must cover issues pertaining to the financial and service delivery implications of the budget and the outcomes of the previous year's actual outcome, the forecast for the current year and that of the two outer years. At least 30 days before the start of the budget year, a report summarising the views of the community, comments from national treasury and provincial treasuries, other organs of state and any other stakeholders must be tabled in Council. This regulation places a stronger onus on municipalities to ensure that consultation with communities, stakeholders and different government institutions are completed on time to allow for the approval of a budget that can withstand the consultation test.

The Council then approves the annual budget adopting separate resolutions for each matter raised. Within 10 working days of approving the budget the municipality has to make the approved budget public and include any supporting documentation and resolutions taken. A summarised version containing appropriate ward information and supporting documents in the different languages predominant in each municipal area should also be widely publicised to facilitate *public awareness* of the budget. The publicised information should once again include information regarding the financial and service delivery implications of the annual budget, the outcomes of the previous year's actual outcome, the forecast for the current year and that of the two outer years. With this the annual process connects the current budget with previous budgets and budget cycles.

Capital projects

Regulation 13 places certain limitations on municipalities' capital spending. A municipality with an approved total revenue below R250 million may approve capital projects below five per cent of the total approved revenue. Where the budget exceeds R250 million but is not more than R500 million, the threshold is eight per cent and in instances where the approved total revenue is greater than R500 million, capital projects may not exceed R50 million. Capital projects requiring funding below the amounts stipulated above do not require approval from Council before incorporating them into the annual budget.

Adjustment budget

Definition

According to section 28 of the MFMA a municipality 'may revise its approved budget through an adjustment budget'. The budget may be adjusted in the following instances:

- the revenue and expenditure estimates may be adjusted downward if there is material under-collection of revenue;
- to appropriate additional revenue that became available above the estimated amounts;
- to authorise unforeseeable and unavoidable expenditure upon recommendation by the mayor;
- to use projected savings in one vote toward spending in another vote;
- to authorise unspent funds of a past financial year. This adjustment will only apply to under expenditure that could not reasonably be foreseen to be included as a roll-over with the approval of the current budget;
- to correct errors in the annual budget; and
- to provide for additional expenditure.

Where the budget is adjusted upward the municipality must indicate that it has sufficient funding to support the adjustment (regulation 22).

An adjustment budget may only be tabled by the mayor in the council. It must be accompanied by an explanation of the effect it will have on the annual budget, a motivation for the recommended changes, an explanation of the impact of any increased spending on the annual budget for the two outer years and any prescribed documentation. Adjusting taxes and tariffs is not allowed except when required by a financial recovery plan. The adjustment budget must be submitted to provincial and national treasuries after it has been approved and also to other relevant organs of state and municipalities affected.

As a general rule, the Treasury encourages fewer adjustment budgets. The concern is that regular adjustments to the annual budget contribute to poor fiscal control, exposing municipalities to the overly zealous ideas of politicians and administrators or to the lowering of targets in the face of under performance. Regular adjustments to the annual budget are also seen as a consequence of poor forward planning on the part of municipalities. The idea is therefore that improved planning will mean less need for an adjustment budget, which in turn results in greater fiscal control generally.

As a means to force fewer budget adjustments, the Treasury included a framework for adjustment budgets into the regulations in accordance with section 23(3) of the MFMA. The ideal recommended by the Treasury is one adjustment budget per year. After consultation with municipalities it became apparent that there are a number of uncontrollable events that make it impossible to limit municipalities to one adjustment budget per year.

General adjustment

The budget regulations make provision for one *general adjustment* in a financial year, with four other possible adjustments linked to very specific criteria. The general adjustment applies to the appropriation of additional revenues that have become available over and above anticipated amounts for existing programmes, expenditure (that is not related to provincial and national allocations), using projected saving in one vote toward expenditure in another vote and correcting budget errors . This adjustment may only be tabled after the mid-year budget and performance assessment of the municipality, but not later than 28 February, i.e. between 25 January and 28 February of a financial year.

Additional allocations

A second adjustment to the annual budget is made possible when additional funding becomes available from a national or provincial department through an adjustment to the provincial or national department's budget. At the next available council meeting the mayor may table the adjustment for approval but within 60 days of the approval of the relevant government department's adjustment to minimise the risk of under spending.

Unforeseen and unavoidable expenditure

A third adjustment is possible for unforeseen and unavoidable expenditure. This type of adjustment typically applies to disasters and must be made 60 days after the expenditure was incurred. After that time such expenditure will be considered as unauthorised, irregular or fruitless and wasteful.

Roll-overs

A fourth adjustment for roll-overs is also made possible in terms of regulation 23(5) of the Budget Regulations and may only be tabled after the financial year has ended but before 25 August of the next financial year.

Unauthorised, irregular or fruitless and wasteful expenditure

A final adjustment is allowed for unauthorised, irregular or fruitless and wasteful expenditure. This is a more complex adjustment as it requires a prescribed framework for the adjustment. In the case where an office bearer has incurred this type of expenditure, the municipality must recover this money from the liable person, authorise the unauthorised expenditure in an adjustment or certify the expenditure as irrecoverable, following an investigation.

Conclusion

The Municipal Budget Regulations emphasise the importance of transparency and accountability in financial management. It also strengthens the authority of the municipality to tighten fiscal control and oversight and deal with unsound and illegal financial practices. Furthermore, it entrenches democracy as a key principle in financial management by requiring political, administrative and public ownership of the process. Municipalities have started making progress in embracing the MFMA and the principles underpinning the progressive aims of these regulations. However, more work needs to be done with respect to making joint planning and engagement in the resources allocation of municipalities more meaningful and taking action against poor fiscal management.

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