



## Budget Process 2006/07

This circular has been prepared to provide guidance to municipalities on the 2006/07 budget process, which is to commence with the tabling of a “**schedule of key deadlines**” in council by no later than 31 August 2005, consistent with the Municipal Finance Management Act (MFMA). This circular contains a summary of developments since the circular No 10 was issued on the 2005/06 budget process and must be read in conjunction with that earlier circular.

Related matters to be addressed in future circulars, guidelines and regulations include:

- Budget format and content
- Implementation and monitoring of budgets and performance
- Adjustment budget
- Unforeseen and unavoidable expenditure
- Unauthorised, irregular or fruitless and wasteful expenditure
- Budget submission 2006/07
- Bulk resources for municipal services

### Introduction

All provisions of the MFMA relating to the budget process will apply to all municipalities for the 2006/07 budget year, irrespective of the capacity categorisation.

There will be no repeat exemptions of MFMA section 16(2) regardless of the municipal elections and as such all municipalities must table their budgets at a council meeting no later than **31 March 2006** (at least 90 days before the start of the budget year). Non-compliance will result in a qualified audit opinion and other consequences in terms of section 26.

It is considered that a single well-run budget and IDP review process will facilitate community participation, provide ward level information, encourage discussion on priorities and provide an opportunity for feedback. Further, it will improve the accountability and responsiveness to the municipality towards the local community needs. It will also allow the municipality to provide inputs to the relevant provincial and national departments for the services they render such as schools, clinics, hospitals and police stations. To facilitate this process, it is incumbent upon municipalities to revive and utilise the community ward system, whereby the municipality can identify and prioritise the competing needs of the communities within its jurisdiction.

In his 24 July 2005 media briefing on the Cabinet lekgotla, the **President** discussed local government challenges and stressed the need for municipal leaders to play a visible role and optimise communication with communities (a copy of the media briefing is obtainable from [www.info.gov.za/speeches/2005/05072711151001](http://www.info.gov.za/speeches/2005/05072711151001)). The budget process provides an excellent opportunity to embrace this sentiment and contribute towards the implementation of programmes that are integrated across all spheres of government.

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## Impact of Municipal Elections

Pending municipal elections scheduled between December 2005 and March 2006, the timing of the circular is aimed at facilitating an earlier than usual budget preparation phase. Uncertainty around the election could possibly contribute to delays in tabling the budget.

For the preparation of the 2006/07 budget, it is recommended that municipalities strive to prepare draft budgets and revise the IDP by December 2005. Draft budgets should be based upon initial community consultations, reviews of past performance, initial inputs from national and provincial sector departments, reviews of Provincial Growth and Development Strategies, drafting of departmental SDBIPs and deliberations on priorities for the coming three years by the council executive.

It is further recommended that the outgoing council table the draft budget as early as possible facilitating further consultation and review by the incoming council. In the event that such early preparations are not undertaken municipalities will increase the risk of not being able to table and approve their budgets within the requirements of the MFMA. Consequences of non-compliance include a qualified audit opinion regarding the tabled budget and various forms of intervention as set out in section 26 of the MFMA for failure to approve the budget. Notwithstanding the elections, no exemption will be granted for late tabling.

The accounting officer must ensure that the *schedule of key deadlines* takes these factors into account to ensure that legislative requirements continue to be met. One solution is to bring the process forward and table the draft budget much earlier than usual allowing a longer period for consultation, review and adoption by the incoming council. An example *schedule of key deadlines* incorporating changes due to the election is attached to this circular.

The roles of outgoing and incoming councils must be considered in this process. While the incoming councillors will want to play a direct role in shaping the 2006/07 budget, it is important to recognise, for effective and seamless service delivery to the communities, programmes and projects undertaken during this time should be completed as soon as possible and that this may limit the scope of new incumbents to completely redo the budget in the first year of their term. With 5-year terms, councillors have an excellent opportunity to influence the IDP and medium term budget. If this issue is recognised early, municipalities can plan to ensure that it does not affect the budget adoption timetable. From past experiences, we have seen a stop/start process when new councils are elected. This has often caused severe service delivery delays, something that must be avoided.

## Six steps to preparing a budget

### Key developments since MFMA Circular 10 – Budget Process 2005/06

The six steps to preparing a budget were introduced in MFMA Circular No 10, which remains current and should be followed for the 2006/07 budget process. Both this circular and MFMA Circular No 10 provide guidance to municipalities and municipal entities on the 2006/07 budget and focuses on the early preparatory work. Both circulars should be tabled before council, copies distributed to all councilors, ward committees, managers and entities. The municipal manager must ensure that full support is provided to the mayor immediately to begin work on the coordination of the 2006/07 budget process calendar and events.

Since MFMA Circular No 10 was issued, on 8 October 2004, the following key developments have occurred and deadlines reinforced which should be considered when preparing the 2006/07 budget:

Step	Process
<p><b>1 Planning</b></p>	<p><b><i>Schedule key dates, establish consultation forums, review previous processes.</i></b></p> <p>The budget process makes provision for various engagements and for appropriate reviews to assess progress in implementation. Lessons learnt should then be factored into the next planning and budgeting cycle.</p> <p>The schedule of key deadlines for 2006/07 must be tabled in council urgently and submitted to National Treasury and the relevant provincial treasury. In addition, the electronic Budget Evaluation Checklist (BEC) for 2005/06 must be returned via email to <a href="mailto:lgdatabase@treasury.gov.za">lgdatabase@treasury.gov.za</a> by <b>15 September 2005</b>.</p> <p>The BEC and the example <i>schedule of key deadlines (incorporating changes to the process due to elections)</i> can be downloaded from the National Treasury website and are attached to this circular.</p>
<p><b>2 Strategic</b></p>	<p><b><i>Review IDP, set service delivery and objectives for next 3 years, consult on tariffs, indigent, credit control, free basic services, etc and consider local, provincial and national issues, previous year's performance and current economic and demographic trends, etc.</i></b></p> <p>In practice municipalities obtain feedback in the early stages of the annual cycle on the previous year's performance and discussion with sector departments allow for multi-year cross-cutting programmes to be planned more effectively and featured in provincial and municipal plans and vice versa. This engagement should be timed so as not to cause delays in the timetable for the 2006/07 budget.</p> <p>This phase of consultation ends when the mayor tables the budget and revised IDP before the end of March.</p>
<p><b>3 Preparing</b></p>	<p><b><i>Prepare revenue and expenditure projections, draft budget policies, consult and consider local, provincial and national priorities.</i></b></p> <p>The eradication of infrastructure backlogs and the provision of basic services has been one of government's key priorities. Over the recent years, heavy reliance has been placed on government transfers in the form of grants to address these backlogs. Unfortunately, it has been noted that municipalities have not increased their own contributions towards addressing backlogs to the extent that government grants have grown.</p> <p>Therefore, municipalities are required to make serious efforts to increase their own investment contributions to infrastructure to be able to achieve broader government targets in eradicating backlogs and collectively supporting economic growth.</p>

Step	Process
<p><b>4 Tabling</b></p>	<p><b><i>Table complete proposed budget, IDP revisions and budget related policies before council, consult with and consider formal local, provincial and national inputs or responses</i></b></p> <p>In order to comply with the MFMA, the proposed budget and revised IDP must be tabled together in council no later than 31 March (90 days before the start of the budget year), together with the proposed resolutions and changes to budget-related policies.</p> <p>The accounting officer (municipal manager) must immediately (on the same day) post the budget, revised IDP and all related documents onto the municipal website so that the information is accessible to the public. The accounting officer must also thereafter make available to the public hard copies of the budget and all other related documents and send (hard and electronic) copies to the national and provincial treasuries and other relevant organs of state (e.g. water affairs, mineral and energy, water boards and all other municipalities within the same district).</p>
<p><b>5 Approving</b></p>	<p><b><i>Council approves the budget and related policies before July.</i></b></p>
<p><b>6 Finalising</b></p>	<p><b><i>Publish and approve SDBIP and annual performance agreements and indicators</i></b></p> <p>The recommended approach to prepare the SDBIP is to develop draft departmental SDBIPs at the very beginning of the budget process and roll these up into the proposed SDBIP to be tabled along with the budget. MFMA Circular 13 of 2004 provides detailed guidance on the SDBIP and presents suggested timing and methodology for its preparation.</p> <p>A delegations policy of spending authority on budget votes is critical for successful budget implementation and subsequent monitoring and evaluation. It is important that delegations give effect to sections 69, 70, 71, 72, 79, 82 and 106, and other related provisions of the MFMA.</p>

## Conclusion

If all the above processes are adequately handled, the budget adoption is finalised, then the implementation and execution of the budget becomes easy.

Hence, it is critical that early on in the budget process, the mayor coordinates a *schedule of key deadlines* for all of the required meetings, workshops, community forums etc and makes this schedule public so that those being consulted are aware of their opportunities for input into the IDP and budget process. Further guidance on budget related matters will be provided soon after the medium term budget policy statement later this year.

Further to the discussion in the initial section of this circular, the President has stressed the necessity to improve capacity to implement integrated programmes and to build sustainable communities. Therefore, it is essential for municipalities to focus on improving consultation processes between spheres of government including between district and local municipalities. The integration of plans through local, district, provincial and national departments will facilitate a more informed budget process across all spheres.

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