



Budget Content and Format – 2006/07 MTREF

This circular provides guidance on content and format for municipal budget documentation for the 2006/07 Medium Term Revenue and Expenditure Framework (MTREF). It advances the previous guidance on the budget framework and is aligned with the requirements of the MFMA. **National Treasury has consulted with selected municipalities and provincial treasuries and this circular is now being released for wider consultation. However, all municipalities are required to adhere to the requirements of the MFMA for 2006/07 budgets and supporting documentation (in particular section 17).**

Municipalities are encouraged to innovate and enhance the content of their budget document in accordance with this guidance. You are kindly also requested to submit all comments and enquiries to email address mfma@treasury.gov.za.

Following this format will ensure:

- Compliance with the legal requirements for an approved budget;
- Strengthened oversight by council and improved performance by officials;
- Readability of and linkages within the budget documentation;
- Satisfaction of stakeholders information needs (councillors, community etc); and
- Facilitation of comparability between municipalities.

The budget documentation prepared in accordance with this circular must be made public immediately after being tabled in council, for consultation, and after the final budget is adopted. This includes posting the information on the municipal web site.

Other summary level documents for advertising, wider distribution to communities and use for other specific purposes may be utilised. However, production and distribution of such material does not substitute for or preclude the municipality from making public (at municipal offices, on website, etc) the full set of documentation required by this circular.

You are reminded that the municipal entities are required to submit their proposed budgets for consideration by the parent municipality at least 150 days prior to the start of the budget year. The entity must then submit any revised budget (after considering recommendations from the parent municipality) no later than 100 days before the start of the budget year. These longer lead times for the preparation of entity budgets facilitate consolidation into the parent municipality's budget documentation. The consolidation, reflecting the holistic picture with regards services offered by the municipality and its entities, has not always been well captured and published.

Two key concepts to consider when preparing the budget are:

1. The budget must be funded according to MFMA section 18(1); and
2. The budget must be credible.

The budget documentation must clearly demonstrate that these objectives have been satisfied. The following provides a brief discussion on funded and credible budgets.

Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows.

Municipalities may have previously included in their financial governance an objective of 'balancing the budget'. Under old budget formats a 'balanced' income generated approach was a key objective and this assisted in ensuring that outflows were matched by inflows, provided revenue collections were realistic. However, GRAP compliant budgets necessitate that budget 'balancing' be much more comprehensive.

New budgeting and accounting formats demand that the budgeted Statement of Financial Performance (Income Statement), the Budgeted Statement of Financial Position (Balance Sheet) and the Budgeted Statement of Cash Flows must be considered simultaneously to ensure effective financial management and sustainability.

Credible Budget

Amongst other things, a credible budget is a budget that:

- Funds only activities consistent with the revised IDP and vice versa ensuring the IDP is realistically achievable given the financial constraints of the municipality;
- Is achievable in terms of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are consistent with current and past performance and supported by documented evidence of future assumptions;
- Does not jeopardise the financial viability of the municipality (ensures that the financial position is maintained within generally accepted prudential limits and that obligations can be met in the short, medium and long term); and
- Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

A budget sets out certain service delivery levels and associated financial implications. Therefore the community should realistically expect to receive these promised service delivery levels and understand the associated financial implications. Major under spending due to under collection of revenue or poor planning is a clear example of a budget that is not credible and unrealistic. Furthermore, budgets tabled for consultation at least 90 days prior to the start of the budget year should already be credible and fairly close to the final approved budget.

Reliance on Previous Circulars

This circular brings together the concepts explained in other circulars. It is therefore essential to have a good understanding of the concepts covered in:

- MFMA Circular No 10 & 19 - Budget Process 2005/06 & 2006/07
- MFMA Circular No 12 - Definition of Vote in MFMA
- MFMA Circular No 13 - Service Delivery and Budget Implementation Plan
- MFMA Circular No 14 - 2005 Division of Revenue Bill / Act and Municipal Budgets.

Note that this circular has taken on board consultation feedback regarding the level of the vote. The municipality should determine their own vote structure to represent departments or functions of the municipality in such a way as to aid budget implementation, monitoring and accountability for decisions made. This is consistent with the definition in section 1 of the MFMA. If municipalities elect to have their vote structure not relate to GFS functions, they are required to approve additional budget schedules for GFS classifications. See section 4.2 below on the budget schedules.

The Budget Evaluation Checklist (Annexure to Circular 19) and the MFMA Implementation Plan (Annexure to Circular 7) provide detailed checklists for further assistance.

Content and Format of the Budget Documentation

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2. Mayoral Budget Speech

The purpose of the mayoral budget speech is to provide a high-level summary of the budget that draws on the executive summary and highlights key deliverables during the coming years. Each municipality will differ on the focal areas however certain fundamental issues

such as the eradication of backlogs, commencement of new projects and programmes would be addressed in this section. Kindly refer to the points list in section 4.1 dealing with the executive summary for further elaboration.

It is critical that the mayoral speech refers to medium term objectives and the associated medium term financial implications. Planning and budgeting over the medium term is a key component of the financial management reforms. It has been noted that while many municipalities include multi-year budget figures in supporting documents, the summaries that are most often published and read by the community only cover a single year.

Another key component of the reforms is for municipalities to move away from measuring resource inputs only and measure service delivery outputs as well. As municipalities develop measurable performance objectives they will need to ensure these are highlighted in published and widely distributed documents such as the mayoral speech.

3. Budget Related Resolutions (Annexure 1, page 13)

Draft resolutions must be included with the budget documentation tabled to full council:

- At least 90 days before the start of the budget year for consultation; and
- At least 30 days before the start of the budget year for consideration of approval.

Budget related resolutions must be clearly linked to information provided to council by referring to items and page numbers in the budget documentation. An example set of standard resolutions meeting requirements is provided in Annexure 1, page 13.

Tabling these draft resolutions is a requirement of the MFMA. By the time the budget is tabled for consultation, it should already be a credible budget and the draft resolutions will reflect the legal form. As these draft resolutions are tabled, council will need to deal with them. At the time of tabling for consultation, council may simply note the draft resolutions. At the time of tabling for consideration of approval, depending on when the budget is to be approved, council may note them or may move a motion for approval of the budget based on these or amended resolutions.

4. The Budget

This section will contain the executive summary, budget schedules, related charts and summaries. The budget schedules are to be approved by resolution, which will be prefaced by an executive summary and followed by summary charts and explanations. It must provide readers with an overall consolidated picture of the municipality (including any entities or other external service delivery mechanisms). This must clearly communicate to the community and other stakeholders the full range of services being delivered and the associated financial implications, whether these services are performed by the municipality or by an external mechanism such as an entity. It is important that deliverables by municipal entities are made transparent and that they meet the objectives of the municipality.

4.1 Executive Summary

The executive summary will contain more detail than the mayor's speech. In essence it introduces the budget schedules and related charts and explanations. It covers, in an easy to understand format, what the community can expect from the municipality in the next three years (outer year projections are indicative). It should enable readers to understand the finances and operations of the municipality without having to read through numerous reports. The executive summary could include but not be limited to a brief discussion of:

- Outcomes of the consultative process;
- Alignment with national, provincial and district priorities;
- External factors such as local economic development, tourism etc;
- Past & current performance, achievements, major policy initiatives and challenges;
- Political priorities and linkages to the IDP;
- Service delivery standards, levels of services, outcomes, timetable for achievement and financial implications;
- Free and subsidised basic services (social package) and financial implications;
- Levels of rates, service charges and other fees and charges;
- Fiscal strategy, financial position, constraints, ongoing viability and sustainability;
- Amendments to the IDP, budget related policies such as the indigent, credit control, tariff policies and notable budget assumptions;
- Selected highlights from departmental budgets and SDBIPs;
- Selected highlights from entity budgets and SDBIPs; and
- Selected highlights from the capital programme and elimination of backlogs.

4.2 Budget Schedules (Annexure 2, pages 14 to 19)

Annexure 2 provide formats for the budget schedules to be approved by resolution of Council:

- Schedule 1 - Revenue by Source (page 14);
- Schedule 2 - Operating Expenditure by Vote (page 15);
- Schedule 2(a) - Operating Expenditure by GFS Classification (page 16);
- Schedule 3 - Capital Expenditure by Vote (page 17);
- Schedule 3(a) - Capital Expenditure by GFS Classification (page 18); and
- Schedule 4 - Capital Funding by Source (page 19).

The municipality may elect to combine 2 with 2(a) and 3 with 3(a) by selecting the GFS function as the top level of the vote with their departmental or functional votes summing to the GFS function. Municipalities must approve operating and capital expenditure by vote and by GFS functional classification. If the municipality elects to approve operating and capital expenditure by vote and GFS in different schedules, they must balance.

4.3 Budget Related Charts and Explanatory Notes (Annexure 3, pages 20 to 34)

Annexure 3 provides examples of charts that could be displayed in this section:

- Example Table 1 - Revenue by Source (pages 20 to 22);
- Example Table 2 - Operating Expenditure by Vote (pages 23 to 25);
- Example Table 3 - Capital Expenditure by Vote (pages 26 to 28); and
- Example Table 4 - Capital Funding by Source (pages 29 and 30).

In this section, display one or two charts reflecting each budget schedule and provide explanations of past performance, future projections and anomalies. The examples assume that the municipality has elected to use the GFS functions as their votes and therefore approve only one schedule for operating expenditure and one schedule for capital expenditure. Municipalities that elect to approve separate schedules for vote and GFS classifications may choose to only display charts relating to the vote as charts for GFS functions will not be as useful for users of the budget.

Also, provide any additional charts and related explanations that may be useful for users of the budget documentation for information purposes only and not for approval by council. Council approval of this supporting information is not required. Annexure 3 provides two additional examples:

- Example Table 5 - Summary of revenue and expenditure by vote (page 31); and
- Example Table 6 - Expenditure by type (pages 32 to 34).

Generally, to support the understanding of the budget that is presented, stacked column charts are useful to highlight trends by displaying the component break down for multiple years. It has been found that pie charts are very limited because they display information for one year only. Whereas each stacked column represents the same information in a single pie chart. A limitation of trend line charts is that there is no display of the break down of each component. Each municipality should select groupings so that the charts are meaningful (e.g. to group several smaller components into “other” and display a separate chart for “other” ensuring that no significant amounts remain unexplained in “other”). These charts are examples only and municipalities are encouraged to innovate to improve the quality and content of information for users of the budget.

5. Supporting Documentation

Section 17(3) of the MFMA provides a range of documents that must accompany the budget. These should be included in this section along with other key information discussed below. Annexures 4, 5 and 6 provide templates and guidance to assist municipalities in preparing the supporting documentation.

5.1 Budget Process Overview

MFMA Circulars 10 and 19 provide guidance on the steps in the annual budget process. Critical to the development of a credible budget are: the manner in which the strategic planning process is integrated; the input of policy directions; and consultation with the community and other stakeholders. This section should summarise:

- Political oversight of the budget process;
- Schedule of Key Deadlines relating to budget process [MFMA s 21(1)(b)];
- Process used to integrate the review of the IDP and preparation of the budget;
- Process for consultations with each group of stakeholders and outcomes;
- Timing, number and type of consultations;
- Stakeholders who were involved in consultations;
- Process for tabling the budget in council for consultation;
- Process for tabling the budget in council for consideration of approval;
- Process for approving the budget;
- Use of ward committees and other formal structures;
- Models used for prioritising resource allocation;
- Process to record and integrate inputs from the community in the final budget;
- Process and media used to provide information on the budget to the community;
- Methods employed to make the budget document available (including websites); and
- Statistics relevant to the process (submissions received, attendance at forums etc).

Stakeholders to be consulted include but are not limited to:

- National and provincial sector departments (intergovernmental coordination);
- District and local municipalities as appropriate (local coordination);
- Providers of bulk resources (water, electricity etc); and
- Community (service delivery priorities and implications for rates, tariffs etc).

5.2 Alignment of Budget with Integrated Development Plan

Each year the IDP must be reviewed as required by the Municipal Systems Act and MFMA. It should be reviewed in terms of performance in achieving outcomes and outputs, since the current financial position and the future fiscal outlook for the municipality will have a direct bearing on delivery. The review should ensure that the plans are still within the financial capacity of the municipality.

This section should give readers a good understanding of what is contained in the IDP and how that guides the allocations in the budget. The intention is not to attach the IDP as an annexure or to repeat everything in the IDP. However, it is critical that the user of the budget documentation can get a good high-level overview of the IDP and be referred to the detailed IDP documentation. Furthermore, the full IDP as referenced by the budget documentation must be publicly available (on the web site, in the council offices, etc). This section should make reference to relevant sections of the IDP documentation and at least contain:

- Vision for the municipality;
- Strategic focus areas;
- Long-term goals or outcomes for the community;
- Reference to alignment with national, provincial and district plans;
- Consideration of service delivery and funding of housing, health and transport, etc;
- Summary of the medium-term objectives or outputs;
- Reference to the measurable performance objectives in section 5.9 of this circular;
- Description of prioritisation systems used for allocating resources to objectives;
- Amendments to the IDP;
- Reference to the consultative process undertaken to review the IDP; and
- Tables showing the link between the IDP and budget.

Annexure 4 supporting tables 1 to 3, pages 35 to 37 provide examples of tables linking the IDP and budget for revenue and expenditure. Each municipality should use their own strategic objectives and action plans to complete these tables. The totals for each table must agree to the approved budget.

5.3 Budget Related Policies Overview and Amendments

The detailed policies will not usually be included in the budget documentation. However they must be made available on request by councillors and made publicly available (on the web site, council offices etc) when the budget is tabled for consultation, tabled for consideration of approval and finally approved. This section must at least give a broad overview of the budget policy framework and highlight the amended policies to be approved by council resolution. Budget related policies include, but are not limited to:

- Revenue related policies (tariffs, credit control, revenue collection, indigents, etc);
- Free basic services including levels, households benefiting and cost;
- Investment of funds, reserves, borrowing and cash management;
- Supply chain management policy;
- Virement, adjustment budgets, and unforeseen and unavoidable expenditure;
- Monitoring (management and oversight);
- Long term financial planning principles;
- Personnel (overtime, vacancies, temp staff, etc); and
- Infrastructure investment and funding.

5.4 Budget Assumptions

Budgets are prepared in an environment of uncertainty. To prepare meaningful budgets, assumptions need to be made about internal and external factors that could influence the budget. Documentation of the assumptions used in preparing the budget assists understanding of the information.

The section provides a comprehensive summary of all the assumptions used in preparing the budget. Assumptions may be covered in more detail elsewhere such as the IDP or other sections in the budget. Key assumptions to be summarised here for past, current and projected years (budget year plus at least 2 projected outer years) include but are not limited to:

- Reviewing the external factors (population migration, employment, health, development of businesses, and new residential areas, etc);
- General inflation outlook and its impact on the municipal activities;
- Credit rating outlook;
- Interest rates for borrowing and investment of funds;
- Rates, tariffs, charges and timing of revenue collection;
- Growth or decline in tax base of the municipality;
- Collection rates for each revenue source and customer type;
- Price movements on specifics e.g. bulk purchases of water and electricity, fuel etc;
- Average salary increases;
- Industrial relations climate, reorganisation and capacity building;
- Trends in population and households (growth, decline, stable);
- Changing demand characteristics (demand for services);
- Trends in demand for free or subsidised basic services;
- Impact of national, provincial and local policies;
- Ability of the municipality to spend and deliver on the programmes; and
- Implications of restructuring and other major events into the future;

The assumptions can be developed from various sources including:

- General sources of economic indicators and trend analysis;
- Information provided by government and Statistics SA;
- Plans and budgets (national & provincial departments, district municipalities etc);
- Local conducted surveys and consumption data (water, electricity, waste, sewerage outflow etc); and
- Municipality's own analysis of actual demand and trends in their communities.

Where local trends and assumptions differ from national and provincial trends, possible causes and reasons should be documented. Variances identified during in year performance reviews undertaken during the budget period, may necessitate a review of the underlying budget assumptions.

5.5 Funding the Budget

Fiscal Overview

A review of financial performance, projection of long-term financial outlook, financing and funding arrangements is critical to budget preparation. The long-term financial plan should be reviewed each year to update assumptions, projections and related policies. Some key issues to consider and capture in this section include:

- Referencing to and revising the long-term financial plan for events that may have impacted during the recent past;
- Referring to the outcomes and achievements of the past few years financial performance as per the audited financial statements;
- Reviewing and discussing the financial objectives, indicators and assumptions;
- Reviewing the past and summarise long term financial outlook;
- Highlighting the current overall financial position and liquidity situation;
- Highlight financial challenges and constraints;
- Discuss strategies to deal with the challenges, and to maintain financial viability and capacity to sustain services;
- Highlight overall funding mix and implications for own revenue and external funding; and
- Highlight compliance with MFMA and other relevant legislation etc.

Include the table in Annexure 5 (pages 49 to 50) showing past and projected financial indicators.

Sources of Funding (pages 51 to 53 and 38 to 41)

Each source of funding should be examined with a view to its optimization within affordability levels. It should be borne in mind that there is a direct link with council's policy on tariffs, user charges, and levels of service, indigence, and credit control. The policy and funding mix is imperative for expansionary and sustainable service delivery. Annexure 6 (pages 51 to 53) provides some guidance on what should be covered under each of the following sub-headings:

- Rates, tariffs and other charges;
- Savings and efficiencies;
- Investments (Annexure 4, Supporting Table 4 and 4a, pages 38 and 39);
- Grant allocations (Annexure 4, Supporting Table 5, page 40);
- Contributions and donations;
- Sale of assets;
- Carry Over;
- Proposed Future Revenue Sources; and
- Borrowing (Annexure 4, Supporting Table 6, page 41)

Please note that the guidance referred to in Annexure 6 refers in certain cases to supporting tables contained in Annexure 4.

5.6 Disclosure on Allocations Made by the Municipality (page 42)

Annexure 4 supporting table 7 (page 42) provides the format for a table on allocations or grants by the municipality to:

- Other municipalities;
- Municipal Entities and other external service delivery mechanisms;
- Any other organs of state; and
- Any other organisation outside government (e.g. charity, NGOs, etc).

5.7 Disclosure on Salaries, Allowances and Benefits (page 43 to 45)

Annexure 4 supporting tables 8, 8a and 8b (page 43 to 45) provide formats for the disclosure requirements on salaries, allowances and benefits. The total cost to the municipality (including bonus, etc) must be disclosed. If benefits in-kind are provided (e.g. provision of living quarters) the full market value must be shown.

5.8 Monthly Cash Flows by Source (page 46)

Annexure 4 supporting table 9 (page 46) provides the format for the monthly cash flows by source. This supporting information will allow the municipality to manage its cash flows and plan for events in advance. Bridging overdrafts maybe required to smoothen out the cash needs of the municipality if revenue fluctuates seasonally as can be proven by reviewing past performance. Kindly be reminded that recurrent overdrafts, must be phased out, in terms of the phase out plan envisaged in the MFMA.

5.9 Measurable Performance Objectives (Revenue Source and Vote, page 47)

Provide summary annual measurable performance objectives for each revenue source and for each vote. Annual performance objectives must be converted into quarterly targets for the Service Delivery and Budget Implementation Plan (SDBIP) and will be audited in terms of the annual performance report required by the Systems Act (refer also to chapters 2 and 5 of the annual report as per MFMA circular 11). In refining this area and as we develop the reforms, it would be beneficial to show past years results and future years projections.

Annexure 4 supporting table 10 (page 47) provides an example of measurable performance objectives by Vote, however, municipalities are required to improve these measurable indicators and make them more relevant to actual deliverables required by council. No example is provided for measurable performance objectives for each revenue source. These will include collection levels and payment rates, etc.

5.10 Disclosure on Implementation of MFMA & Other Legislation

This section provides disclosure regarding progress in implementing various related legislation including the MFMA and how this affects the budget and budget process. For example, with regard to the MFMA the municipality should disclose its plans to progress reforms and the implementation of the Act.

5.11 Budgets and SDBIPs – Departmental / Functional (internal to municipality)

A summary of each departmental or functional SDBIP must be provided showing the information set out in MFMA Circular 13 under the section “Format of Departmental SDBIPs”:

- Purpose (outcomes);
- Service delivery description (outputs);
- Resources utilised (inputs);
- Inputs to detailed sector capital plans; and
- The link between performance measures in the SDBIP and performance contracts.

While the MFMA allows for SDBIPs to be approved by the Mayor up to 28 days after the approval of the budget, National Treasury recommends that municipalities follow the suggested timing and methodology set out in MFMA circular 13 starting on page 10 and reflected in diagram 6. The essence of this is for strategic direction to inform the early preparation of departmental SDBIPs which would be rolled up into the draft SDBIP, which in turn would inform the draft budget to be tabled for consultation. Following this approach and sticking to a robust budget process schedule could possibly allow the SDBIP to be approved along with the budget. The MFMA allows some extra time in case minor changes to the SDBIP are required.

5.12 Budgets and SDBIPs - Entities & Other External Mechanisms

This section follows the same format as the departmental budgets and SDBIPs (including the points above) but will contain some additional disclosures pertaining specifically to external service delivery mechanisms. Additional disclosures include but are not limited to:

- Summary of the oversight process for each external mechanism used;
- Percentage of ownership and control by parent municipality for each entity;
- Clear indication of what the entity will deliver for the municipality;
- Funding for the entity, covering deficits or surpluses and how that will be addressed by the municipality;
- Proposed new entities or external service delivery mechanisms;
- Summary of recent or proposed feasibility studies for external mechanisms;
- Existing and new service delivery agreements and changes to existing agreements;
- List of all outsourcing contracts entered into or proposed in the medium term;
- Reference to salary disclosure for entities under section 5.7 of this circular
- Further guidance is provided in the returns for entities, PPPs and long term contracts

5.13 Summary of Detailed Capital Plans

Detailed capital plans, aligned to national and provincial sector plans, will be contained in the SDBIP as per MFMA Circular No 13. These should be summarised and referenced here. The detailed plans must be submitted to National Treasury with the budget documentation.

Capital programmes should be approved as an overall comprehensive capital budget to ensure that projects can be executed in terms of the implementation plans. Approval of individual capital projects has frustrated delivery, resulted in a lack of coordination, considerable inflexibility, stalling of projects and frequent requests for minor adjustment budgets. While approval should be at the highest level, it is important for each project to have been individually costed and included in supporting documentation. The summary of the detailed capital plan should reflect:

- Information by programme and municipal ward;
- MIG sector priorities (water, sanitation, refuse, electricity, roads, etc);
- Total capital cost over the life of the programme;
- Future financial and non-financial implications (incl. tariff implications, etc); and
- The source of the funding for the capital programme.

Annexure 4 supporting table 11 (page 48) showing capital expenditure by asset category will also be shown here.

5.14 Budgeted Financial Statements

This section includes the budgeted financial statements for:

- The parent municipality (unconsolidated);
- Each entity; and
- The consolidated group.

These should be prepared according to the appropriate accounting standards including:

- Statement of financial performance;
- Statement of financial position;
- Statement of cash flows; and
- Statement of changes in net assets.

Conclusion

The above contents and descriptions of formats are comprehensive yet allows for innovation and individual circumstances. It is expected that all municipalities will provide their budgets in this format. Not all municipalities have Entities and related activities, however, for those that do have them, the approach taken in this circular will provide the necessary guidance.

If during the year, municipalities prepare Adjustment budgets, then these Adjustments budgets must include adjusted budget schedules in the same format as the budget schedules provided in Annexure 2 (pages 14 to 19) except that the columns will pertain to in-year reporting requirements. A circular providing guidance on adjustment budgets will be released shortly.

You are reminded to submit your comments to our dedicated MFMA email address listed below. We trust that this circular will assist in you being able to produce quality, user friendly and timely budget documentation that will improve current standards in presentation.

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