



Medium Term Budget Policy Statement 2005

This circular provides information on the Medium Term Budget Policy Statement 2005 (MTBPS) recently tabled by the Minister of Finance, and includes guidance on growth parameters and related issues for consideration when preparing municipal budgets for the 2006 Medium Term Expenditure and Income Framework, which applies to the three financial years 2006/07, 2007/08 and 2008/09. The MTBPS is available on the National Treasury website www.treasury.gov.za.

Policy Priorities and Fiscal Framework

The Minister of Finance has outlined a 2006 medium term budget framework adding R78,3 billion to national, provincial and local government allocations over the baseline estimates for the next three years.

In addition to setting aside over R20 billion as a replacement for the Regional Service Council (RSC) levies, local government will receive a further R2 billion, of which R1,5 billion will be added to the Equitable Share to expand free basic services and R500 million to the Municipal Infrastructure Grant (MIG) for the provision of basic infrastructure to disadvantaged communities.

One of the key priorities set by government over this medium term period is the improvement and accessibility of services to communities. In keeping with the need to grow the economy much emphasis has been placed on the creation of new and the rehabilitation of existing infrastructure. The allocations made to municipalities through the MIG are therefore aimed at supplementing the capital budgets of municipalities. The consolidation of all infrastructure grants with the incorporation of the integrated national electrification programme and water services grant give further impetus to this objective.

Growth Parameters

The 2006 medium term outlook for the South African economy remains positive with the inflation rate expected to stay within the target range of 3 to 6 percent. The inflation forecast (CPIX) announced for 2006/07, 2007/08 and 2008/09 are 5,2 percent, 4,8 percent and 4,5 percent, respectively. Real GDP growth for 2006/07, 2007/08 and 2008/09 is expected to be around 4,2 percent, 4,8 percent and 4,5 percent, respectively.

Over the medium term and for the municipal financial year 2006/07, the **growth parameters** are set at between 3 and 6 percent, consistent with the target range of the inflation band.

The growth parameters apply to tariff increases for property rates, user and other charges raised by municipalities and municipal entities, to ensure that all spheres of government support the national macro economic policies, unless it can be shown that external factors impact otherwise.

It should be noted that with rapid increases in urbanization the overall resource base of municipalities will increase. Should local circumstances and assumptions differ from national and provincial trends, possible causes and reasons should be well documented.

Transfers to Local Government

Allocations to municipalities from national government occur mainly through equitable share and conditional grants. Conditional grants are allocated for infrastructure as well as support for capacity building programmes.

As a result of the local government share of revenue rising from R17,5 billion in the current year to R33,6 billion in 2008/09, the division of revenue, in addition to the provision for the replacement of RSC levies, translates in revised allocations to municipalities totaling R90,5 billion over the 2006 medium term. These revised allocations are discussed below.

The equitable share component grows at a real rate of 6,4 percent from R10,6 billion in 2005/06 to R14,6 billion in 2008/09 significantly increasing the financial capacity of municipalities to fund the provision of free basic services to indigent households and to improve governance and administrative systems.

The additional R500 million to the MIG over the MTEF period represents a growth of 3% in real terms. Over R25 billion in grants will flow directly to municipalities for infrastructure purposes placing an onus on municipalities to seriously plan and gear-up to spend effectively and efficiently on capital programmes and projects. Details of allocations per municipality will be published in the schedules to the Annual Division of Revenue Bill to be tabled in February 2006.

The capacity building and restructuring grants support municipalities in developing their planning, budgeting, financial management and technical skills. The capacity and restructuring component is R749 million for the first two years of the MTEF and declines to R400 million in 2008/09 as the Restructuring Grant is phased into the equitable share.

Moreover, the national adjustment budget provides R242 million to municipalities in the current financial year through the Public Transport Infrastructure and Systems Grant. These have been earmarked for capital projects that are ready for immediate implementation in the cities likely to host the 2010 Soccer World Cup competition. Over the next three years, R3,5 billion is allocated for public transport infrastructure. Due to spending patterns and other operational reasons any shifts in allocations will be published in an adjustments gazette.

Municipal Elections and tabling of 2006/07 Budgets

Municipalities are referred to National Treasury's Circular No. 19 on the Budget Process wherein they are encouraged to prepare "draft" budgets and revise the IDP by December 2005. It is 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.

This earlier tabling will ensure that council factors in the additional work required prior to the elections and lend support to the administration for a smooth transition from the old to the new councils. It is of critical importance to minimise disruption to service delivery during this period. Councils are respectfully reminded that there will be no exemption for non-compliance.

In a press release of 18 November 2005, the Minister of Provincial and Local Government (DPLG) announced the date of the upcoming local government elections as Wednesday, 01 March 2006. In view of this, we strongly recommend that municipalities have their 2006/07 "draft" budgets prepared before the elections. This will ensure that the final budget is tabled soon after the elections for discussion and adoption.

Conclusion

As municipalities continue with the 2006/07 budget preparation processes, they are advised to consider the impact and outcomes of the 2005/06 process and, where necessary, to bring the revised allocations to the attention of the community and other relevant stakeholders. They are also advised to ensure that the budgets link to the IDPs and plans give effect to government policy.

A further circular will be released after the 2006 Division of Revenue Act providing detailed allocations to each municipality. You are urged to constantly visit the website below for updated information.

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