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Budget Formats Guide

Municipalities

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1 Introduction

The main objective of the Municipal Budget and Reporting Regulations is to formalise norms and standards which when applied will improve the credibility, sustainability, transparency, accuracy and reliability of municipal budgets. Budget schedules, supporting tables and associated charts were developed to translate the budget regulation requirements into practical outcomes. It has been recognised internationally that

> *Rarely can budget format or classification reforms be achieved in isolation. If the purposes are only to change the appearance of the budget document, it will never be used for actual allocations and remain on the shelf as another trophy reform. (Guess, 2007, p4).*

Therefore, with this in mind, a series of user-friendly templates have been developed to make implementation of the format reforms as easy as possible for municipalities. The objective of this guideline is to aid implementation by explaining the purpose and operations of the budget formats and templates. The templates are designed to assist with the production of all schedules, tables, supporting tables and charts in compliance with the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), the Municipal Budget and Reporting Regulations issued on 17 April 2009 (Government Gazette 32141) and the various MFMA Circulars issued by National Treasury. The templates comprise:

- Schedule A: a municipal budget file;
- Schedule B: a municipal adjustments budget file;
- Schedule C: a municipal monthly budget statement file;
- Schedule D: a municipal entity budget file;
- Schedule E: a municipal entity adjustments budget file; and
- Schedule F: a municipal entity monthly budget statement file.

The latest versions of the template files are available on National Treasury's website at:

http://www.treasury.gov.za/legislation/mfma/guidelines/default.aspx

This guideline explains the use and application of the templates for the municipal budget, adjustments budget and monthly budget statement.

2 Background

Prior to the development of the municipal budget and reporting regulations and 'budget formats' a number of short, medium and long term objectives were documented. The objectives that are specifically relevant to the budget formats are set out below.

2.1 Objectives of the budget formats reform

The objectives of the budget formats reform are to:

1. Ensure that municipal budget and financial reporting formats support the other financial management reforms introduced by the MFMA;

2. Improve the local government spheres' ability to deliver basic services to all by –
    - addressing issues of financial sustainability; and
    - facilitating informed policy choices and medium term planning of service delivery by requiring targets to be aligned to achieve backlog elimination (refer Schedule 1 Table A10).

    If Councils are provided succinct and understandable financial and non-financial information they will be better able to take informed decisions that promote effective financial management, and that are aligned to service delivery performance. Transparency, accountability and 'understandability' are vital components of this overarching objective. The allocation of financial resources aligned to service delivery targets is intended to make it abundantly clear what services are being promised when budgets are approved, when plans are varied and when ***actual service delivery achievement*** is measured against the approved plans.

3. Formalise the norms and standards governing municipal budget and financial reporting formats, so as to improve the credibility, sustainability, transparency, accuracy, and reliability of budgets and in-year reports of municipalities and municipal entities, provide budget format certainty and align budget format policy to financial reporting policy.

2.2 Specific aims of the budget formats

The budget formats were designed to achieve the following specific aims:

1. Strengthen the links between transparency, understandability and accountability. The budget formats provide these links by –
    - requiring that information covering seven years be presented, consisting of the previous three financial years, the current year, the budget year, and the following two MTEF years;
    - ensuring consistency between budget and reporting formats (monthly, mid-year performance assessment, SDBIP and the reports relating to municipal entities); and
    - ensuring consistency with national and provincial government reporting requirements.

    In financial management reforms elsewhere "a principle result of budget reform has been the creation of a more transparent and user-friendly budget document" (Tonko, 2007, p99). These formats aim to achieve this in a number of ways:
    - general alignment of financial reporting formats and the annual financial statements to key budget format reforms;
    - alignment of budget and reporting formats with generally recognised accounting practice (GRAP) and principles; and
    - developing formats that are consistent across the entire budgeting and reporting cycle; i.e. budget, adjustments budget, s71 reporting, municipal entity budgeting and annual financial statements.

2. Promote 'good practice' in municipal financial reporting through –

    (a) Promoting simplicity ahead of complexity by –
    - ensuring terminology is consistent between all formats; and

- promoting the use of charts so as to simplify the interpretation of trends and the impact of budgetary decisions.

(b) Ensuring standardisation across the local government sphere by very clearly specifying the information requirements. This will enable municipalities and their information system suppliers to develop software and report writing formats that are unlikely to need to be changed in future. It will also facilitate reporting on the 'whole-of-local government', and thus contribute to improved 'whole-of-government' reporting, monitoring and evaluation.

(c) Developing a standardised budget structure that municipal councils will use to approve municipal budgets. The structure will promote long-term consistency in monitoring performance, and will preserve comparative financial performance history even when the organisational structure of a municipality changes. The standardised structure provides that –

- all municipalities approve revenue and expenditure according to:
    i. a 'modified' GFS[1] standard classification
    ii. a vote structure that can be adapted to the needs of the municipality
    iii. revenue by source and expenditure by type
- all municipalities approve capital expenditure by GFS standard classification and by a vote structure that reflects the needs to the municipality
- ensure that municipalities with entities will also approve a budget on a similar basis to the 'parent' entity and so achieve effective financial management control and consolidation; and
- promote vote approval flexibility that can facilitate improved budget control given the specific organisational structure of each municipality. This recognises that structures vary significantly across municipalities within South Africa.

The advantage of using GFS standardisation is that it transcends local requirements and local changes in organisational structure.

(d) Minimising the cost of compliance and information gathering. The format templates are designed to assist municipalities with the development of budgets, and so minimise the cost of complying with the Municipal Budget and Reporting Regulations.

(e) Ensuring consistency and comparability with other spheres of government. This is achieved by –

- presenting information across a seven-year time horizon as is done in national and provincial budgets; and
- aligning the formats to the maximum extent possible with those prescribed for national and provincial government, taking into consideration differences in accounting approaches.

It is anticipated that this will also facilitate credit rating agency and financial institution understanding and assessment of municipal budgets.

3. Ensure information is available to –

[1] Government Finance Statistics

- determine the financial status and sustainability of municipalities;
- assess if municipal budgets are funded in accordance with sections 18 and 19 of the MFMA;
- assess indigent policies and pro-poor equity issues; and
- facilitate performance comparisons and evaluations.

4. Facilitate community and councillor understanding by aligning municipal financial management principles with good practice commercial financial management principles. This is achieved by –
    - using similar terminology in the formats to that used within commercial contexts wherever possible;
    - applying generally accepted accounting principles, concepts and practices; and
    - ensuring consistency between annual financial statement formats and budget formats so as to improve budget understanding.

5. Promote transparent reporting of tariff and fees/charges information.

6. Ensure compliance with DoRA reporting requirements without duplicating reporting regimes –
    - the capital budget provides an analysis of all spheres' allocations that fund capital (national, provincial, municipal – to entities, and districts), for the budget, receipts, expenditure and amounts unspent;
    - the operating budget provides an analysis of all spheres' allocations to operating funding (national, provincial, municipal – to entities, and district), of both the budget, receipts, expenditure and amounts unspent; and
    - there is a table that requires a reconciliation of available cash and investments of funds to which obligations are attached. This will ensure improved compliance.

7. Meet the challenge of future accounting reforms. The formats aim to minimise the chance of there having to be revisions in response to new accounting standards. This is achieved by using ***'generic' names and labels*** in the main schedules and tables, and requesting detail in the 'supporting tables'. The 'supporting tables' are partly standardised, but can be expanded to suit local circumstances; e.g. the Budgeted Financial Position will have the label 'Creditors', but the 'supporting information' will require expansion of what constitutes a creditor; e.g. Trade Creditors, VAT owed, unspent grant funds etc. The objective of this approach is that future additional disclosure amendments occur within the 'supporting tables' and do not require amendment of the 'generic' label within the main tables.

2.3 Perspectives on municipal performance

Different stakeholders require budget information from different perspectives to meet specific decision purposes. For example, the delivery of energy, water and waste management services is a key focus at the present time. But, at any time in the future stakeholder focus may be directed at any other of the many services that local government delivers. Budget information needs to meet this challenge.

Furthermore, municipalities may choose to deliver services in different ways, including departmental 'in-house' production, municipal entities, public-private partnerships and other

external mechanisms e.g. contractors. Municipalities will also choose to structure their organisations to suit the environment in which they operate, with the size of the municipality having a major influence. Therefore, the way budget information is presented needs to take into consideration ***all*** the different needs to stakeholders, and ***all*** the different service delivery mechanisms.

The formats facilitate the tracking of municipal service delivery performance from a number of different perspectives:

- Standard classification – The modified GFS standard classification divides municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas. This means it is possible to present the operating surplus or deficit for each functional area, along with information on the proposed capital budget. For example, if a municipality is requested to give information on its electricity function it would summarise and present the revenue/expenditure budget and historical information from Table A2, linked to the capital expenditure information from Table A5, as well as the asset management and repairs/maintenance information from Table A9 and service delivery targets from Table A10. Monthly operating and expenditure targets are presented in Supporting Tables SA27 and SA29.

- Municipal vote – Tables A3 and A5 also enable a municipality to show a vote structure aligned to its organisational structure. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these votes. This means it is possible to present the operating surplus or deficit for each vote, along with information on the proposed capital budget. If a municipality delivers services within a particular vote structure these tables enable it to provide useful performance information based on that vote structure. Supporting Table SA2 provides a matrix, requiring disclosure of 'revenue by source', 'expenditure by type' and a surplus/deficit result for each vote designated in Table A3. Monthly operating and capital expenditure targets are presented in Supporting Tables SA26 and SA28.

- Other service delivery mechanisms – Supporting Table SA31 presents the aggregated entity budget – if the municipality uses municipal entities to deliver services. This shows the contribution of municipal entities to the municipality's consolidated budget. Each municipal entity is required to provide the council with its own budget. Therefore, if a municipality uses a municipal entity to deliver services in which stakeholders have an interest, they will be able to get information on the entity from its budget which it tables in council. Supporting Table SA32 lists the other external mechanisms used to deliver services; e.g. contracts and PPPs.

- Measurable performance objectives – Another important aspect to consider is the alignment of the budgeted financial outcomes to measurable objectives. Supporting Table SA7 requires that these targets be presented in a hierarchy of vote, function and sub-function. The reason for this structure is to ensure the performance information is aligned to the financial information in Tables A2 to A5. A municipality may have a vote structure where a particular vote/department is responsible for delivering services in more than one functional/standard classification area. For instance, the infrastructure department may be responsible for water/sanitation, electricity and roads infrastructure. The structure of the table allows for performance measures to be specified in relation to each of these functional areas, and these can then be related back to the operating expenditure and capital expenditure budgets by standard classification on tables A2 and A5.

- Service delivery budget implementation plan (internal departments) – In addition to the budget information described above, the budget document must also include an executive summary of each departmental SDBIP, including a summary of revenue by source and operating and capital expenditure by type.

- Municipal entity and other external mechanisms – The supporting documentation to the budget must also include a summary of the annual budget and multi-year business plan for each existing and proposed municipal entity, including a summary of revenue by source and operating and capital expenditure by type. This is an important source when it comes to evaluating service delivery performance.

When a particular stakeholder examines a municipal budget they will be looking for information of interest to them. The budget formats have been designed to meet as wide a range of interests as possible. In this regard it is important to understand the relationships between municipality, municipal entity and external mechanisms.

2.4 National Treasury information requirements

National Treasury is responsible for compiling consolidated local government information for national policy and other purposes. To facilitate this process it is necessary for National Treasury to specify national norms and standards for the collection of local government budget and financial information. These norms and standards are reflected in the Budget Reform Returns that are used to upload municipalities' budget and monthly expenditure to the National Treasury Local Government Database.

Note: when submitting the budget formats to National Treasury please ensure that the documents do not have additional password protection (other than the protection National Treasury places on them) and that they are not shared documents.

3 Using the annual budget format

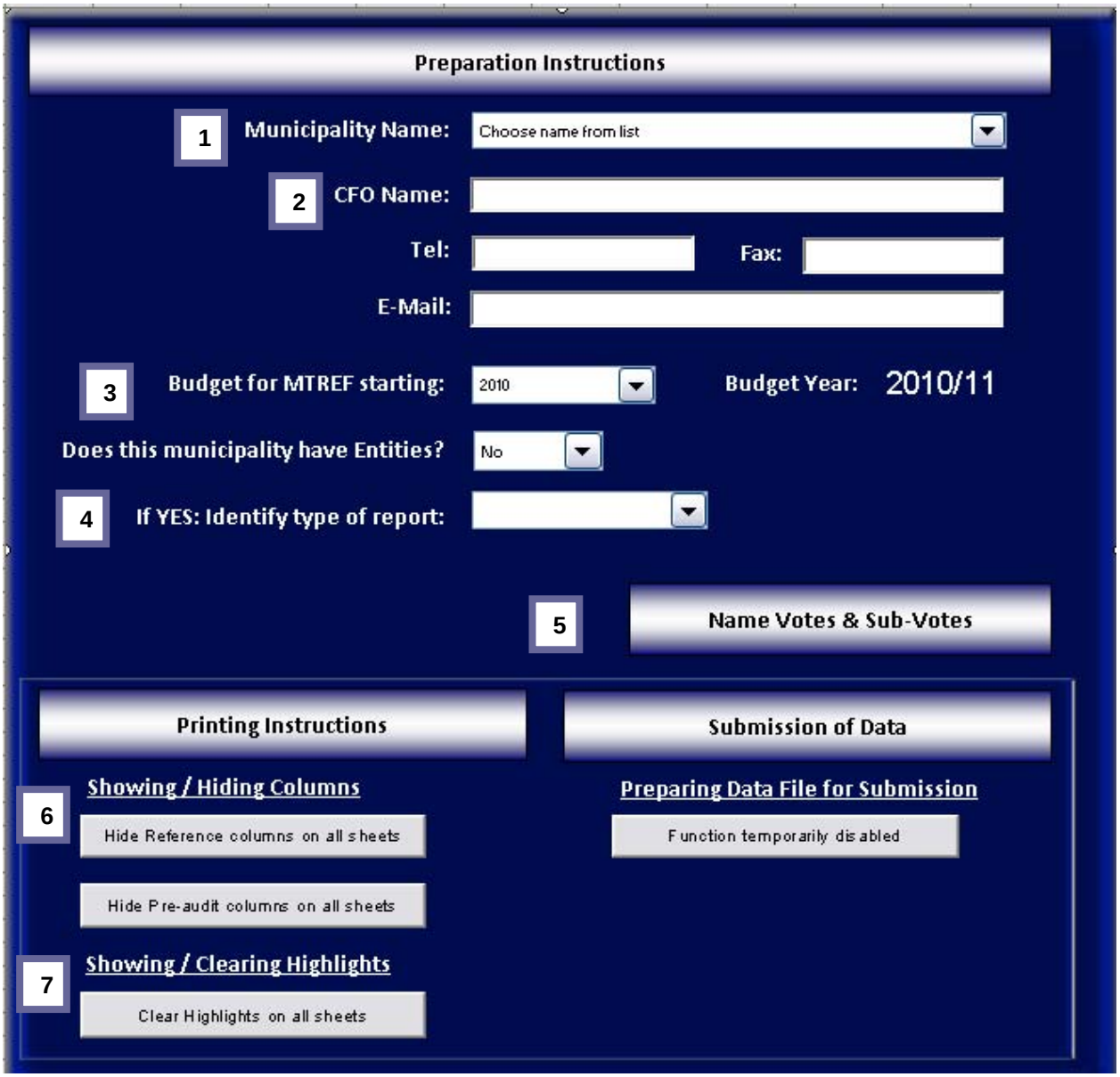
3.1 Preparation of budget template

When you begin to use the budget template, you first need to customise it with information specific to your particular municipality. This involves the following steps:

1. Ensure that 'macros' are enabled, which may require adjustment of your spreadsheet macro security level to at least 'medium' (if it is initially set at 'low' then the spreadsheet will have to be closed and re-opened to give effect to the new security level). On the Excel spreadsheet menu, select: Tools, Macro, Security – to change the macro security setting.

2. Select the 'Click for Instructions!' button, and follow the instructions on the 'Instructions' worksheet.





Step 1 The budget template should be initialised by selecting the municipal code and name from the drop-down list in the 'Municipality Name' field.

Step 2 The following four fields: CFO Name, Tel, Fax and E-mail need to be completed manually.

Step 3 Select from the drop-down list, the year for which the budget is required to be approved by the Council. Note that this selection only changes column headings and not any data within the template (if any).

Step 4 Does the municipality have entities? If 'No' then proceed to next step. If 'Yes', the municipality is required to prepare a 'parent municipality' budget and present a 'consolidated' budget (i.e. two sets of budget formats). Select the type of report in the next dropdown box. In both instances the municipality will be required to supply additional information related to the municipal entities in

Supporting Table SA31. Answering 'yes' and selecting the 'type of report' will ensure that the appropriate names appear on all the table headings.

Step 5 To set up your municipality's vote structure select the 'Names Votes and Sub-votes' button – it will take you to a worksheet 'Org structure' where you must insert the municipality's votes. See item 3 and following below.

Steps 6 and 7 refer to the finalisation of reports and will be discussed in section 3.3 of this document.

3. On the 'Org Structure' worksheet information may only be inserted in Column B. The MFMA describes a 'vote' as the "main segments" into which a municipal budget is divided and specifies the "total amounts" to be appropriated for the department or functional area concerned. Municipal votes generally correspond to the names of municipal departments or programmes. The worksheet allows for 15 votes. If a municipality has more than 15 votes then you must give the names of the 14 largest votes and name the 15th vote "Other Votes" and then list the votes as 'sub-votes'. National Treasury will not provide you with a format with additional votes.

4. Next insert sub-votes, which aggregate up to votes. If a municipality does not use sub-votes then use one 'general' description and make the other lines 'blank'. Data is entered at the sub-vote level on **Table A3A** (for the financial performance budget by municipal vote), but this table does **not** need to be published. The worksheet allows for 10 sub-votes under each vote, but you can insert as many additional 'sub-vote' rows as necessary, ensuring that the row is included in the sub-total.

5. Select **Table A3A**. In column A there are data validation 'drop-down' boxes from which the votes and sub-votes can be selected. After completing the step, described at step 4 above, your municipality's vote and sub-vote names will appear in the drop-down boxes. When selected the same vote and sub-vote name will also be automatically populated for operating expenditure (**Table A3**) and capital expenditure (**Table A5**), as well as **Supporting Table SA2**, which provides a matrix view of departmental votes and the major revenue and expenditure items and ensures terminology consistency.

6. Do not be concerned if there is not be operating revenue or capital expenditure for some votes. Users of the budget documents will want to know whether, for example, an expenditure vote is not supported by any revenue, or if there is no capital expenditure budget recorded against a particular departmental vote. Also, bear in mind that the budget formats are based on a 'seven (7) year horizon'. So while there may not be a budget amount for a particular vote or sub-vote in the budget year there may have been actual revenue or expenditure recorded against the vote in a prior year.

7. Select **Supporting Table SA7**. Insert the names of votes, functions, sub-functions and performance objectives/measures as required. These should be consistent with all of the non-financial performance target information included in the SDBIP. Note that **Supporting Table SA7** should contain 'all' targets classified by vote, function and sub-function.

Vote - (& name)
Function - (& name)
Sub-function & name)
Insert measure/s description

Table A10 will also require that basic service delivery targets are specified, but these should also be summarised in **Supporting Table SA7**, so that this table represents a summary of all targets. **Supporting Table SA7** is soft-protected and so lines can be added to accommodate additional information.

8. **Supporting Table SA18** details budgeted transfers and grants receipts. Column A shows the names of all current transfers and grants. Select from the validation 'drop-down box' the names of the transfers/grants that your municipality expects to receive. If your municipality receives a transfer that is not listed you can enter the name where it says 'insert description'. Note Supporting Table SA18 is soft-protected so you can add additional rows if required. However, when doing so always ensure that the subtotals are correct. **Supporting Table SA18** will automatically populate the related **Supporting Tables SA19,** unless you have added rows to **Supporting Table SA18**. If you have added rows on **Supporting Table SA18** you will need to add the same number of rows on **Supporting Table SA19** and ensure that the transfers/grant names are aligned between the two tables.

9. Lastly, select the 'Contacts' tab: Please ensure that this information is regularly updated.

3.2 Entering data in the budget templates

One of the aims of the templates is to simplify input requirements. Cells where data is required are colour-coded yellow. Text, totals and sub-total cells are protected from data entry to ensure that users do not mistakenly enter information in these cells and so disrupt the architecture of the spreadsheets.

Note that all finance related information must be entered in thousands of Rands (R 000), unless it is clear from the context that another format is required – for instance when reporting on tariff rates.

The template contains a 'pre-audit' column. This column is not intended for use as part of the budget process, as the current financial year would not have finished when the budget is prepared and considered. The column was provided as a basis for reviewing service delivery outcomes 'after' the budget year is completed as an early basis for understanding whether there is likely to be an impact on the Budget year, e.g. if revenue was less than forecast there may be sustainability implications and urgent curtailment of expenditure. When preparing to input a Budget first select the button to hide this column.



The following tables are linked, and information needs to be entered in a particular sequence:

1. **Supporting Table SA1** contains detailed information for the Financial Performance Budget and is linked and summarised in **Table A4**. Supporting Table SA1 must be completed before finalising the Financial Performance Budget in Table A4.

2. **Supporting Table SA3** sheet contains detailed information for the Financial Position Budget and is linked and summarised in **Table A6**. Supporting Table SA3 should be completed before finalising the Financial Position Budget in Table A6.

3.3 Finalisation of reports

Users would be aware that it is good practice to save a separate file for each Annual Budget for which a report is prepared.

Step 6 When data entry is complete select the 'Instructions' worksheet. Under 'Printing Instructions', select the 'Hide Reference column on all sheets' button, which will hide the columns in each worksheet that contain references to instructions at the bottom of each table or supporting table.



Step 7 Select the 'Clear Highlights on all sheets' button to remove all of the data entry shading.



Hiding the reference columns and clearing the shading creates the final tables and supporting table formats that can be printed or copied (without reference and explanatory text) to also create a report for the Mayor and Council.

3.4 Guidance on the prescribed budget tables

A consistent feature of the budget formats is the nine (9) columns, 7 year view. This format is aligned with national and provincial budget requirements and overcomes the disadvantage that one year of audited history does not provide a credible basis for performance comparison.

2006/7	2007/8	2008/9	Current Year 2009/10				2010/11 Medium Term Revenue & Expenditure Framework		
Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13

Note: the years in the above table change automatically if the correct 'Budget Year' is selected on the 'Instructions' sheet.

The additional information will improve the analysis of the budget as an early-warning mechanism. The disadvantage of this style is that it appears to increase complexity and the additional columns create some report formatting challenges.

The above figure shows that the columns for the 'Current Year' require the 'Original Budget', 'Adjusted Budget' and 'Full Year Forecast' to be included. The term 'Full Year forecast' has also been referred to as the 'Estimated Outcome'. This information of recent trends and performance is vital for strategic decisions on the new budget.

Municipalities with entities must prepare a 'parent' budget for approval by the council, as the budgets of municipal entities are approved by their boards. However, such municipalities are also required to prepare a consolidated budget that presents the total consolidated budget of the parent municipality and its entities, suitably adjusted by eliminating any transactions that occur between the parent and these entities or between the entities.

The template contains 10 'core' tables (A1 to A10). These ten tables contain the information to be specifically approved or adopted by a Council resolution, in addition to the overall budget document being approved by Council. A specimen Council resolution is set out in **Annexure A**. There are 37 supporting tables (SA1 to SA37) to assist with providing the

explanation of the budget required by the budget regulations. In addition, there are a series of suggested charts to adequately explain the proposed budget *(these are in a separate workbook: A2 Municipal Budget Charts – refer to section 3.5 for an explanation of the charts template)*.

3.4.1 Table A1 Budget Summary

Table A1 is linked to the other tables that it summarises. No data entry in this table is required, so all cells are protected.

The aim of the Budget Summary is to 'bring it all together' and provide a concise overview of the proposed budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance). The table provides a 'snapshot view' of the amounts to be approved by the Council within the context of 'operating' performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs. However, to fully understand this 'snapshot view' it is essential to examine the supporting detail provided in the other tables, and supporting tables.

Note that the Financial Performance Budget summary only presents the revenue and expenditure 'type' view. The 'standard classification' and 'vote' views are presented in separate tables.

In the Budget Summary the revenue lines show 'property rates', 'service charges' and 'other own revenue' which collectively are the own source revenues of the municipality. The 'investment revenue' and 'transfers recognised' represent revenue from external sources.

The expenditure lines highlight the level of expenditure on 'employee costs' to provide municipal services, as well as other key expenditure groups, including 'finance charges' (interest and related financing expenses) and 'materials and bulk purchases'. Macroeconomic circumstances can have significant influence on the cost of these items, so this grouping is considered vital for an overall analysis of some of the key elements of the budget.

Only the total of the Capital Expenditure Budget is presented. It is balanced by the various sources of capital funds. As the funding mix is a crucial strategic decision it was considered appropriate to separately summarise each of the key sources of capital funds; i.e. 'capital transfers recognised', 'public contributions and donations', 'borrowing' and 'internally generated funds'.

Financial management reform requires that a sound and robust budget **simultaneously** considers the Financial Performance, Financial Position and Cash Flow Budgets. The funding strategy is a crucial component of the budget. The Budget Summary provides a high level summary to ensure this objective is achieved, although the detailed calculations are presented in Table A8.

A small number of municipalities will have taxation and 'minorities' transactions. These are not reflected in the Budget Summary of the standard format as it is expected that only a few municipalities will be affected, and should be dealt with by way of footnotes to the table.

3.4.2 Table A2 Budgeted Financial Performance (revenue and expenditure by 'standard classification')

The ***'standard classification'*** refers to a modified Government Finance Statistics (GFS) reporting structure. Municipalities are already familiar with the GFS requirements. The main reason for the modification is the inclusion of the 'Budget and Treasury Office' separately to align to the philosophy underpinning the MFMA. 'Corporate Services' is also shown separately from other administrative costs previously grouped with 'Finance'.

The information must be read in conjunction with the other Financial Performance views (vote and revenue and expenditure).

The standard classification view ensures that all municipalities approve their budgets in one common format. This will facilitate comparison across municipalities and also assist with aggregation and international benchmarking.

Table A2 is protected and is not to be completed directly. Table A2 is populated by entering the data on Table A2A, where detailed information in relation so each of the standard classification functions is required. Table A2A is a working sheet only, and does not need to be included in a budget document – although a municipality may decide to include it for transparency purposes.

As far as possible, municipalities should **not** use the 'other' item under each of the functions.

An 'other' category is provided below the group 'trading services'. This is to accommodate municipalities that provide functions such as 'air transport (airports)', 'agriculture (fresh produce markets, abattoirs)' and 'public, order and safety (licensing and regulation)'.

Municipalities that have investments in 'Associates', as defined in the latest applicable accounting standard for accounting for investments in associates, would report and budget for a share of the 'Associates' financial performance result. Those municipalities should allocate the share to the appropriate standard classification within which an associate operates.

Budget by GFS and vote: dealing with 'internal charges' or 'recharges'

In all instances the definition of the GFS functions includes the costs incurred in the 'administration or support of …' the specific function. This is consistent with the advice that National Treasury has given in respect of 'internal charges', namely when compiling the budgets by standard classification and by vote:

- Reflect the total cost of delivering the primary services **before** recharges to support functions are taken into account;
- This may result in certain Votes or functions having very small budgets if their budgets are 'earned' by providing 'internal services' to other functions or Votes, and
- Note that the direction of recharges is from the primary function to the support function. This approach will facilitate the calculation of the full cost of services provided by the municipality.

Total standard classification revenue and expenditure should agree with the revenue and expenditure totals in Table A3. However, only the Surplus/(Deficit) for the year needs to be the same across all three Financial Performance Budgets (Table A2, Table A3 and Table A4). For the purpose of the 'vote' and 'standard' classification views of Financial

Performance it is usually important to understand the summary position inclusive of capital transfers revenue. Therefore, although the capital revenue items are reflected 'below' the Surplus/(Deficit) line on Table A4 the capital revenues must be allocated to the relevant functions where these capital revenues are to be used to fund capital projects. Also refer 3.4.3.

3.4.3 Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)

The purpose of this view of the budget is to enable the Council to appropriate a vote in accordance with the municipality's organisational structure and to assign responsibility for the revenue and expenditure recorded against these votes to particular senior managers. In some circumstances a municipality might align its organisational structure to the standard classification (GFS), but this is not expected in most municipalities. If this is the case Table A3 will be identical to Table A2.

Table A3 is protected and is not to be completed directly. Revenue and expenditure data should be entered at sub-vote level using Table A3A. Table A3A is a working sheet only, and does not need to be included in a budget document – although a municipality may decide to include it for transparency purposes.

3.4.4 Table A4 Budgeted Financial Performance (revenue and expenditure)

Table A4 is supported by additional detail in Supporting Table SA1. The purpose of this approach is to allow for generic items in the main table, by providing additional in the supporting table with the aim to avoid having to amend the format of the main table as and when accounting standards require changes. It is anticipated that additional items will be accommodated within the supporting table as and when they arise. This will ensure consistent comparisons of the information in the main table.

The Financial Performance Budget is to be concurrently approved by revenue source and expenditure type so as to ensure consistency with annual reporting format requirements. Proposed international reporting standards would require annual financial statement reconciliation to this 'view', so it is useful to include the information as part of the budget approval. The advantage of this approach is that it also improves understanding of financial management, especially by councillors, and allows a ready comparison between actual and planned performance (one of the requirements of monthly reporting, mid-year performance assessment and the annual financial statements). A key aim for this view is to facilitate comparison between the annual results and the original budget to assess performance. It also provides a 'view' of the resource 'input' components of the operating budget. The Council and community will have a keen interest in such classification items as employee costs, debt impairment and finance charges.

Analysis of the Financial Performance 'Surplus/Deficit' trends over time allows a Council to assess whether the level of taxes, tariffs, fees and charges means that the costs of current community service benefits are being equitably met by the beneficiaries of the benefits or whether costs are being deferred and imposed on future generations. In this regard the Council may consider putting in place a deliberately formulated inter-generational beneficiary policy that has been the subject of extensive consultation. 'Intergenerational beneficiaries' has been defined as "those who have paid may not be physically present to benefit from its use once the intended use of the capital is in place. The beneficiaries of capital expenditures may be future generations or newcomers to the community" (Honadle et al., 2004, p182). The reverse situation may also be common, where the full cost of current

service beneficiaries is partly paid by future generations, with a 'deficit' a possible indicator of this condition.

It is only in Table A4 that the 'equity method of accounting' for a share of a surplus/deficit of an associate is separately shown. The equity 'share' is allocated to the appropriate standard classification under Financial Performance (standard classification), and to a relevant department under Financial Performance (vote) – see end of section for an explanation of 'share of a surplus/deficit of an associate'.

Revenue items by source include a separation of 'service charge' revenue. The aim is to highlight at a strategic level the reliance that an individual municipality may have on one or more of the service charge sources.

Budgeting for revenue and 'revenue foregone'

The revenue amounts reflected in the financial performance budgets of the municipality must be net revenue (i.e. total revenue less revenue foregone).

While not entirely definitive, as each category should be assessed on a case-by case basis, it is recommended that municipalities apply the 'generally available to all' rule to determine whether an item is revenue foregone or expenditure (most often 'grant' expenditure). For example, if a rate rebate is available to all ratepayers of a particular category; e.g. residential land use, then the rebate should be treated as 'revenue foregone'. This broadly applied rebate is considered an adjustment to the tariff from a revenue perspective. However, if a rate rebate is provided to a particular ratepayer for charitable purposes this should be treated as expenditure and should be shown as a grant. Such a rebate, even if provided as a deduction from a bill, to specific indigent households is an efficient way compared to collecting the property rates or other amount owed and then making an equivalent donation.

The new formats require that municipalities must disclose all revenue foregone on Supporting Table SA1. Note that revenue foregone must be distinguished from grant expenditures made in relation to the provision of, for instance, free basic services. These grant expenditures must be detailed on Supporting Table SA21, and reflected as expenditure in the financial performance budget (Table A4) under 'transfers and grants'.

The key concept in the above explanation, is that a rates rebate that is 'generally available to all' is in practice *an adjustment to the rates tariff*, and so the revenue was never there to be collected (the revenue was foregone), and so should not be considered to be revenue in the first instance. This is why it is deducted on Table SA1 - and the net amount is reflected on Table A4. Note this net amount still includes rebates and exemptions of the type outlined in section 15(2) of the Municipal Property Rates Act (MPRA).

By contrast, a rebate or exemption provided to a ratepayer for any of the reasons set out in the section 15(2) of the MPRA would represent a grant for a charitable purpose and so should be treated as expenditure. In other words, the revenue was there to be collected, but the municipality chose not to collect it because it wanted to (or was required to by other legislation) assist the ratepayer because they are poor, a pensioner or whatever other specific reason. The aim of this procedure is to obtain more reliable information on all benefits provided by local government to deserving groups of people.

The objective of this approach is also to ensure that the revenue reflected on Table A4 does not overstate the amount of revenue that is actually available to the municipality for collection - as a rebate 'generally available to all' was never realistically collectable.

Table A4 separates 'transfers recognised – capital', 'contributions recognised – capital' and 'contributed assets' from operating revenue. These items are shown below the initial

surplus/deficit line. The main purpose of this is to make transparent the impact these items are having on the budgeted surplus/deficit and to assist with the funding compliance procedure (refer to Supporting Table SA10). Contributed assets are an assets-in-kind' transfer to the municipality, often from property developments, and whilst these provide a future service potential benefit to users and may enhance property valuation they do not provide an immediate cash resource.

Expenditure by 'type' in the financial statements' format will eventually be modified to be consistent with those in the formats, namely:

- Use of the wording of **'Debt impairment'** is consistent with the accounting standards and private sector reporting. Under accrual accounting this budget item should represent the estimated increase in the Provision for Debt Impairment, an unknown exact quantity event. The term 'bad debts' is now reserved for when debts are actually written off against the estimated provision.

- Use of the wording of **'Depreciation & asset impairment'**. The impairment definition is dealt with by accounting standards ('material' known or anticipated items should be included in a budget).

- Use of the wording **'Finance charges'**, is intended to include interest expenditure, accruals, as well as related charges: e.g. bank fees. This item can also include expenses related to derivative valuation or the amortisation of bond establishment expenses.

- **'Bulk purchases'** is included to highlight the magnitude of this expenditure item on most municipal budgets. A separate line has also been provided for 'Other materials' as it is anticipated that there are 'other' material purchases, which are also not immaterial in value, e.g. road maintenance materials, which are currently being shown against 'Other expenditure'. It would be useful for decision making to display these items separately. In essence 'Other materials' consist of all materials not covered by 'Bulk Purchases' and does not constitute 'Other expenditure'.

- **Repairs & Maintenance (R&M)** has been removed from the list of expenditure types that have previously appeared in many budgets. R&M is an expenditure ***function*** and is inconsistent with other input types. Its inclusion also contributes to non-compliance with GRAP1, requiring annual financial statements to not have a mixture of function and type of expenditure. Its inclusion can also lead to the understatement of other expenditure types; e.g. employee costs, as part of the expenditure type would be included within R&M. A detailed analysis of R&M is now required in Table A9 which deals with all Asset Management requirements where it is presented in the context of other asset management objectives.

An extensive table of notes on Supporting Table SA1 supports Table A4, that provides a detailed analysis of the major components of a number of items, including:

- Service charges – refuse, which includes items for 'Refuse services' and 'Landfill services' (Communities should be made aware of the separate contribution that landfill disposal services is making to revenue, as in some cities this is a substantial proportion);
- 'Other Revenue By Source';
- 'Employee related costs', including a reconciliation of amounts 'capitalised';
- 'Depreciation & asset impairment';
- 'Bulk purchases', which separates bulk purchases of electricity and water;

- 'Contracted services', under which external service providers must be listed. This includes expenditure related to outsourcing contracts (but not consultants); and
- 'Other Operating Expenditure', which includes details for consultant and audit fees. It is proposed that items listed under 'General expenses' should not exceed 10 per cent[2] of Total 'Other' Expenditure.

Other items on Table A4 that are important for working out the 'Surplus/Deficit for the year' include:

- **Contributed assets**: When dealing with contributed assets, often referred to as donated assets, the first thing to note is that it was a deliberate policy decision to keep 'contributed assets' off the A5 - Capital Budget in order to ensure valid historical comparisons and to focus attention on municipal capital spending effort.

- **Attributable to minorities**: Applies when a portion of the surplus or deficit must accrue to another municipality that has a share interest in one or more of the municipality's entities.

- **Share of surplus/(deficit) of associate** refers to that share of the surplus/(deficit) that is attributed to the entities the municipality does not directly own but in which the municipality has significant share (20 per cent or more of voting power).

Improving budgeting for contributed assets

Recognition of contributed assets is especially useful in understanding the future maintenance obligations a municipality is accepting. Most contributed assets arise as a result of planned developments undertaken either by the private sector or another sphere of government. So the planning and building plans for these developments ought to have been approved by the municipality, including an indication of the value of the expected infrastructure to be 'contributed' to the municipality and when it is to be transferred. Therefore all the necessary information should be available to make a reasonable estimate of what developments will be completed in the budget year and estimates for outer years for the purposes of bringing the contributed assets onto the original budget at the beginning of the financial year. To improve reporting on contributed assets, better information should be sought from the relevant municipal departments, such as planning, water and electricity.

Assets donated to the municipality after the January Adjustments Budget should be brought onto the municipality's books in the process of reconciling the Budgeted Financial Performance and Budgeted Financial Position for PPE balance at year end with what actually transpired, in the same way as budgeted income is reconciled with actual income.

3.4.5 Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Table A5 is partially protected and the 'vote' view of the budget has to be entered at sub-vote level using Table A5A. Table A5A is a working sheet only, and does not need to be included in a budget document – though a municipality may decide to include it for transparency purposes.

Table A5 seeks to meet three requirements, namely it shows:

[2] Where an 'other' item exceeds 10% analyse that item for its component parts

- capital expenditure by municipal vote (multi-year and single-year appropriations);
- capital expenditure by standard classification; and
- the funding sources necessary to fund the capital budget, including information on capital transfers from national, province and district that fund the capital budget.

Table A5 brings together in one table a range of information that should be considered concurrently when approving the capital budget. Prior to approving the capital budget consideration should also be given especially to the information presented in Table A9 (Asset Management), as well as Supporting Table SA35 (Future financial implications of the capital expenditure budget) and Supporting Table SA37 (Projects delayed from previous financial years).

The vote 'structure' reflected on Table A5 and Table A5A will be exactly the same as that entered on Table A3A. So if no vote 'structure' is reflected this needs to be entered by following the steps noted in section 3.1 above.

The MFMA provides that a municipality may approve **multi-year or single-year** capital budget appropriations. The format provides for the capital budget to be approved as a multi-year appropriation, as a single year appropriation (with two additional years of indicative estimates), or as a combination. Given the long-term planning and implementation required for large capital projects and programmes it is anticipated that these will usually consist of multi-year appropriations. A municipality may specifically choose to appropriate expenditure only for a single year for a project where it is unsure or wishes to review a future stage commitment for the project. In this case it would be more appropriate to approve a single year appropriation but only estimate future year outlays.

In the funding section of Table 5, 'transfers recognised – capital' are shown as this is what the municipality is budgeting to spend. Note that the term 'recognised' is equivalent to transfer revenue 'earned' (conditions met). These amounts may not exceed the total conditional transfers that national or provincial government or a district municipality (in the case of some local municipalities) has allocated to the municipality in the annual Division of Revenue Bill/Act, gazettal or other determination.

The accounting treatment of conditional transfers is slightly different in that conditional transfers are first captured as liabilities until such time as the municipality spends the funds in accordance with the grant conditions. A reconciliation of transfers, grant receipts and unspent funds is required in Supporting Table SA20. Refer to MFMA Circular 51 for a detailed explanation of the management of unspent conditional transfer funds.

The funding section also includes 'Public contributions & donations'. Note the total for this item does not need to reconcile to the 'Contributions recognised – capital' item on Table A4. This is because contributed assets are excluded from 'Public contributions & donations', as these are considered to be the value of assets (as opposed to funds) transferred to a municipality from other organisations, and are not part of the funding available for a municipality's capital programme. In other words, 'Public contributions & donations' only reflect the cash/funds component of 'Contributions recognised – capital'.

Funding also includes 'Internally generated funds' which represents 'own funds' from operations. It takes considerable judgement to establish the level of internally generated funds to be applied to the capital budget, and special consideration needs to be given to Table A8 to ascertain if funds are genuinely available considering all other commitments of funds available and that the MFMA requirements are complied with.

Finance leases are equivalent funding mechanisms to external loans, and the value of the lease payments should be included in the 'Borrowing' item, as well as the value of assets procured by this funding source. Some PPPs must also be budgeted and accounted for as Finance Leases (refer to National Treasury's policy on public private partnerships).

Total Capital Funding must balance with Total Capital Expenditure, and there is a check formula at the bottom of the table to confirm this.

This table also includes a 'note' that will be used to collect specific information about the capital budget for certain 'nationally' significant programmes; e.g. resources deployed to basic services infrastructure or the 2010 Soccer World Cup.

3.4.6 Table A6 Budgeted Financial Position

Table A6 is consistent with international standards of good financial management practice, and also improves understandability for councillors and management who may have come to local government from the private sector.

Compared to previous formats this one has been aligned to the illustration within GRAP1, which is generally aligned to the international convention which presents Assets less Liabilities as 'accounting' Community Wealth. The order of items within each group is also aligned to the international convention of showing items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.

Table A6 is supported by an extensive table of notes (Supporting Table SA3) providing a detailed analysis of the major components of a number of items, including:

- Call investment deposits
- Consumer debtors
- Property, plant and equipment
- Trade and other payables
- Provisions – non current
- Changes in net assets
- Reserves

'Call investment deposits' are further disaggregated into 'Deposits with maturities of 3 months or less' and 'Deposits with maturities greater than 3 months'. The latter do not meet the 'cash equivalent' test. If municipalities have any short term investments with a maturity greater than 90 days then care should be taken when preparing and analysing Table 8 'Cash backed reserves/accumulated surplus reconciliation'.

Information on "Reserves' would be specific to individual municipalities, although there are a number of common ones. Supporting Table SA3 is soft-protected and so extra lines can be added to reflect the specific reserves the municipality maintains.

The municipal equivalent of equity is now described as Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community, but that from a consolidated budget view the municipality may have equity in a municipal entity operating in a private sector form. The inclusion of the word 'equity' achieves the objective of understanding by councillors and the community, indicating that Community Wealth in local government is akin to Equity.

3.4.7 Table A7 Budgeted Cash Flows

Table A7 is consistent with international standards of good financial management practice and also improves understandability for councillors and management who have had private sector experience. Some specific features include:

- Clear separation of receipts and payments within each cash flow category;
- Clear separation of capital and operating receipts from Government, which also enables cash from 'Ratepayers and other' to be used in the imputed collection rate calculation (refer Supporting Table SA10), and
- Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long term borrowing (debt).

Earlier specimen financial statements had shown 'current' changes in items such as inventory and short term investments as 'investing activities'. Care should be taken to budget for these 'current' items within 'Cash from operating activities'.

3.4.8 Table A8 Cash backed reserves/accumulated surplus reconciliation

This table meets the requirements of MFMA Circular 42. The underlying philosophy of the table is a relatively simple one: it aims to answer three questions:

- What are the predicted cash and investments that are available at the end of the budget year?
- How are those funds used?
- What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was available. A shortfall (applications > cash and investments) is indicative of non-compliance with the MFMA requirement that the municipality's budget must be 'funded'. Non-compliance with section 18 is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded (budgeted spending is greater than funds available or to be collected). It is also important to analyse trends to understand the consequences, e.g. the budget year might indicate a small surplus situation, which in itself is an appropriate outcome, but if prior year outcomes were much larger surpluses then this negative trend may be a concern that requires closer examination.

Municipalities must complete a number of steps to finalise this table:

- ***Unspent conditional transfers (grants)*** are automatically assumed to be an obligation as the municipality has received government transfers in advance of meeting the conditions. Ordinarily, unless there are special circumstances, the municipality is obligated to return unspent conditional grant funds. In the past these have been allowed to 'roll-over' and be spent in the ordinary course of business, but this practice has been discontinued.
- ***Unspent borrowing.*** There may be circumstances where funds were borrowed for the capital programme during a previous financial year, but were not spent. This amount would be obtained from a reconciliation the municipality prepares to ensure compliance with section 46 of the MFMA. Care should be taken with understanding the impact of any refinancing programme or expenditure that meets the definition of section 46(4) but may not be capitalised in the Budgeted Financial Position; e.g. capitalised interest.
- ***Statutory requirements***. Such as VAT, other taxation, and other obligations spelt out in legislation.

- ***Determine working capital requirements.*** The definition of working capital that is used is a broader definition aligned to modern concepts, not the generally applied use of 'bad debt provision' which is an insufficient proxy. The main aim of working capital is to ensure that sufficient funds are available to meet obligations as they fall due. A key challenge is often the mismatch between the timing of receipts of funds from debtors and payments due to employees and creditors. Municipalities experiencing high levels of debtor non-payment and receipt delays will have a greater requirement for working capital. Similarly, municipalities experiencing rapid growth will also have a greater need for working capital. Individual municipalities will have their own circumstances to deal with. Formulas contained within the Table A8 may assist with determining the working capital requirements, but may require modification to suit individual circumstances. The collection rate calculated in Supporting Table SA10 is assumed to apply for the calculation of consumer debtors.
- ***Set debtors collection assumptions.*** For the purposes of estimating 'Other provisions' a percentage of debtors greater than 90 days needs to be inserted, and this is automatically applied to all financial years. For example, if the percentage of other debtors greater than 90 days is 5 per cent of the total of 'Other provisions', then for the sake of simplicity the working capital formula will actually assume that the entire 95 per cent will be collected within 30 days and that the balance is never collected. Municipalities need to adjust the percentage to reflect their circumstances, but often the 'Other debtors' value is immaterial relative to the outstanding balance of consumer debtors.
- ***Determine long term investments committed for future obligations.*** Long term application of funds is divided into 'Long term investments committed' and 'Reserves to be backed by cash/investments'. A good example of a long term commitment is where a municipality is required to have a sinking fund for the repayment of a future borrowing repayment, often related to a zero-coupon loan, bond or similar borrowing structure. The sinking fund value would be included within long term investments in the Budgeted Financial Position, but must be 'held to maturity' and is not available for spending.
- ***Council approval for cash backing of reserves.*** Most reserve fund cash-backing is discretionary in nature, but the reserve funds are not available to support a budget unless they are cash-backed. Some reserve funds may not be fully cash-backed, but this situation must be supported by a Council-approved policy that describes the basis of the cash-backing; e.g. an insurance reserve might be cash-backed to the extent of a present value calculation of future expected payments over a limited number of future years. Council policy should authorise the level of backing of reserves for all such purposes as self-insurance, pension plans and refuse landfill site rehabilitation. The policy would detail a time framework for the accumulation of necessary funds to meet these future commitments.

  Most municipalities struggle with the concept of what reserves to establish and provide cash backing for. South African local government is not alone in this respect. "Hembree, Shelton, and Tyler (2000, p17) lament that "Searching in the public finance literature for help when a jurisdiction wants to establish a policy on reserve fund balances can be confusing because, often, no distinction is made between contingency funds and reserve funds". Their view is that as long as a community meets its basic liquidity needs, *the target range for a fund balance is of less importance than that the community has a policy that it revisits from time to time* (Honadle et al., 2004, p29). The budget regulations and formats support this view that it is up to each municipality to review its own circumstances and establish a reserve fund policy, with the policy to be periodically reviewed.

3.4.9 Table A9 Asset Management

This table brings together the core financial elements of asset management. The format presents a summarised capital programme divided into ***new assets*** and ***renewal of existing assets*** and also summarises capital expenditure by asset category. Operational elements of repairs and maintenance and depreciation are also presented. The objective is to provide a complete picture of the municipality's ***asset management strategy***, indicating the resources being deployed for maintaining and renewing existing assets, as well as the extent of asset expansion. Key indicators are also presented to support analysis of the asset management strategy.

The asset categorisation in Table A9 is aligned to the categories on the Budgeted Financial Position, with sub-categories required for infrastructure. The purpose of the sub-category information is partly to allow for various 'return on asset' information to be analysed for services that make 'business-style' contributions to municipal funds.

Rehabilitation/ Enhancement /Renewal of capital assets

Municipalities must pay attention to the classification of their capital expenditure budgets to accurately reflect renewal of existing assets. Section 6.7.1 of the ***Local Government Asset Guideline*** (available at: http://www.treasury.gov.za/legislation/mfma/guidelines) defines a number of instances where an asset renewal can be defined as a capital asset i.e. where the expenditure should be capitalised –

Expenditure to rehabilitate, enhance or renew an existing capital asset (including separately depreciable parts) can be recognised as capital if that expenditure: satisfies the recognition criteria for assets, enhances the service provision of that capital asset beyond its original expectation, increases the useful life of that capital asset (beyond its original life); increases that capital asset capacity (beyond its original capacity); increases the performance of the capital asset (beyond the original performance); increases the functionality of that capital asset; reduces the future ownership costs of that capital asset significantly; or increases the size of the asset or changes its shape.

The other aspect of this debate is focussed on how to report on **routine Maintenance/ Refurbishment**: The expenditure to restore the functionality of the capital asset to its original level is a maintenance/refurbishment expense and not a capital expense. Maintenance/ refurbishment is recorded as operating expenditure and not capitalised to the capital asset.

Table A9 is protected and information has to be entered on Supporting Tables SA 34a to c.

The table is specifically intended to highlight::

- The level of resources being deployed for the renewal and maintenance of assets, relative to the resources being deployed for the acquisition and construction of new assets. High levels of new assets could indicate future demands for new operational and maintenance activity and expenditure. If so, does the municipality have the capability to finance and deliver this additional capacity?
- The level of asset renewal relative to the level of depreciation. It could be expected that on average over a period of time that there is a relationship between the level of asset consumption and the rate of renewal, adjusted for obsolescence and technological improvements. Whilst an exact match is improbable, or probably unnecessary, divergent trends could be indicative of a failure to deploy sufficient resources to asset renewal with the consequential impact on asset lives, performance and maintenance

costs. A low level of renewal expenditure could mean reduced revenue protection; i.e. that revenue generating assets cease to operate and therefore income related to the delivery of those services ceases to be paid by the service recipients.

3.4.10 Table A10 Basic service delivery measurement

This table focuses on improving basic service delivery by ensuring that municipalities (where relevant) approve basic service delivery targets aligned to national priorities.

Table A10 elevates the basic services delivery targets to Council 'approved' status, whereas other measurable performance objectives appear in supporting tables (Supporting Tables SA7 and SA8), or the SDBIP. Many municipalities, due to the wide range of activities performed, have numerous targets and it is frequently the case that the national imperatives are lost in the large number of targets.

Growth in the number of households generally drives service delivery demand and it is crucial that growth forecasts are estimated in the development of the budget. Frequently it is the case that municipal information relies on census data, but this is too out of date to drive servicing delivery implementation planning. Municipalities are advised to use the most recent data on demographic trends within the municipal area to determine the number of households to be serviced. This could include any comprehensive surveys undertaken by the municipality or other institutions such as Stats SA's 2007 Community Survey. The municipality should then project forward from there, based on what the municipality knows about on the extension of services that have taken place, or are planned.

The total number of households under each service should be the same, and should be aligned to the information provided on Supporting Table SA9, which reflects the municipality's contribution to the housing function.

The table adopts a comprehensive approach to the targets, including both acceptable service levels and unacceptable service levels, in anticipation of targets that show increasing improvement in acceptable levels and reducing unacceptable levels, aligned to national targets. Municipalities should not underestimate the importance that government will place on this table in future as it provides key information on the roll-out of basic services, and whether targets are being achieved.

Table A9 also requests information on:

- The actual number of households receiving free basic services;
- The cost to the municipality of providing those free basic services;
- The highest level of free services provided to households; and
- The revenue cost of the free services provided to households (which must include the revenue cost of the free basic services. Note that this will be a combination of the Revenue forgone identified on Supporting Table SA1 and certain transfers and grants identified on Supporting Table SA21.

Calculating the cost of free basic services

The equitable share is designed to compensate municipalities for providing free basic services to indigent households. Table A10 in the new formats requires the municipality to reflect the *cost of the free basic services* it is providing to households. Note that these costs are not equivalent to the expenditure on grants to individuals that are reflected on Supporting Table SA21 because certain of the services (such as the 6kl of water generally available to all) may be reflected as revenue foregone on Supporting Table SA1, while the amounts on Supporting Table SA 21 may reflect the revenue cost / expenditure and not the actual cost of providing the service. The focus here is on the **actual cost** to the municipality of providing the free basic service, which must be distinguished from the revenue impost of providing these services.

The purpose of requesting the above information is to get municipalities to disclose the minimum social package and the total value of the social package of services they provide to communities. This has a bearing on the sustainability of the municipality's finances – as an overly generous social package may not be financially sustainable.

3.5 Guidance on Supporting Tables to the budget

The main aim of the supporting tables is to further explain the budget. The 'hierarchy of information' approach is also designed to assist with the budget document being useful to a wide variety of users. Some will have their information needs met by a high level summary. Others will need more substance, as presented in budget tables A2 to A10. While others will require much more detail. It is also intended that the hierarchy structure will accommodate future accounting standard and technical amendments.

3.5.1 Supporting Table SA1 Supporting detail to Budgeted Financial Performance

This table presents greater detail on selected revenue and expenditure items reflected on Table A4.

Guidance on the subject of whether a tariff/rate reduction should be treated as revenue foregone or as equivalent to a social grant was originally given in the MFMA Circular 41, and has been repeated in MFMA Circulars 48 and 51. In this regard see the text box on 'Budgeting for revenue and revenue forgone' on page 14.

Supporting Table SA1 requires all revenue reductions to be disclosed transparently. Where one of these items qualifies as 'expenditure' then this amount should be disclosed as transfers and grants on the relevant 'other' category in Supporting Table SA21.

'Allocations to organs of state' relate to transfers made for specific purposes, but do not include payments for bulk services. For example, a municipality reimburses Eskom for providing free basic services to municipal residents.

3.5.2 Supporting Table SA2 Matrix of the Financial Performance Budget

The table provides a useful summary of revenue sources, expenditure types and surplus/deficit categorised by organisational structure the municipality has specified in Table A3. It would generally be expected that most municipalities that provide electricity, water, sanitation and refuse services would have an organisational structure that would enable

users of the budget document to ascertain the financial performance of these operations, and make a judgement about the reasonableness of tariffs and charges that drive the revenue outcome. Of course, this is only a one-year view and any analysis requires more detailed information.

3.5.3 Supporting Table SA3 Notes to the Budgeted Financial Position

Provides more details on assets, liabilities and community wealth in support of Table A6. Refer to paragraph 3.3.6 for guidance on 'call investment deposits'.

Unspent conditional transfers (grants) and VAT due are disclosed as a component of 'Trade and other payables'. These items are a form of payables, and are disclosed in the form of a note so as to reduce the amount of item 'clutter' on Table A6 Budgeted Financial Position.

In the section of Property Plant & Equipment (PPE) the 'gross' asset value balance (before accumulated depreciation) is required to be disclosed exclusive of the value of finance leases, and then the value of accumulated depreciation is shown. The 'gross' assets value plus the value of finance leases less accumulated depreciation will equal the net written down book value of PPE in the Budgeted Financial Position. Finance leases may also include the value of PPP assets.

Changes in PPE (typically land and buildings revaluations) following a valuation exercise should be incorporated as a footnoted adjustment to the 'gross' asset value balance. More specifically this separate adjustment refers to a budgeted accounting change (increase/decrease) in the 'book' value of assets and is not caused by expenditure. The footnoted adjustment is intended to highlight to the Council and Community that part of a change in PPE value has been caused by expenditure for real assets and part is from valuation adjustments.

The Accumulated Surplus/Deficit note includes eight items of detail styled on the specimen annual financial statement information. Whilst this information will be readily available from past audited annual financial statements, the same level of detail may not be necessary for the 'budget' columns. The minimum budget requirement is an accumulated opening balance, the budget surplus/deficit for the year and depreciation 'offsets' (which is later used as part of the funding compliance analysis).

Also complete the note at the bottom of the table, displaying a summary of special information such as expenditure on Provision for Basic services and other priority capital expenditures.

3.5.4 Supporting Tables SA4-SA6 Reconciliation of IDP strategic objectives and budget

These supporting tables provide details that agree with the **IDP** (revenue, operating expenditure and capital expenditure categorised according to IDP strategic objectives). The total revenue or expenditure assigned to the IDP goals must agree to the totals of Table A4 and Table A5.

Note that these tables are soft protected and so you can add as many rows as you require.

Supporting Table SA6 (capital expenditure) contains a 'goal code' column. The code assigned to each goal listed in this supporting table must be the same as the code assigned to capital projects and programmes in Supporting Table SA36 Detailed Capital Budget. Therefore, the sum of the budgets for projects assigned to each code in Supporting Table SA36 must agree with the total budgets for projects assigned the same code on Supporting Table SA6.

3.5.5 Supporting Table SA7 Measurable performance objectives

This supporting table complements Table A10. The major focus of Table A10 is on basic service delivery targets that the Council 'approves'. It is expected that the basic service delivery targets will be repeated within this table for completeness, but that further targets will also be specified. The table categorises performance measures by vote, by standard classification and sub-classification. It is important to appreciate that the structure of the table is intended to ensure that targets are captured at function (standard classification) and sub-function level. Part of the reason for this is that a municipality may have a vote structure where a particular vote/department is responsible for delivering services in more than one functional/standard classification area. For instance, the infrastructure department may be responsible for water/sanitation, electricity and roads infrastructure. However, it is also important to ensure that function and sub-function objectives are aligned to departments, so that if more than one department contributed to a function each will have a function objective. For example if a municipality uses a regional service delivery model, where regions are responsible for a number of service delivery functions.

The structure of the table allows for performance measures to be specified in relation to each of these functional areas, and these can then be related back to the operating expenditure and capital expenditure budgets by standard classification on tables A2 and A5.

3.5.6 Supporting Table SA8 Performance indicators and benchmarks

Supporting Table SA8 presents a series of 'corporate' performance measures, some of which are intended to support the funding compliance calculations in Supporting Table SA10. The performance indicators are intended to provide a set of standard local government measures, mainly of a financial nature. There will be instances where there is a relationship between some of the measurable performance objectives included in Supporting Table SA7, and those in Supporting Table SA8, where the latter are also used as performance targets. For example, the electricity and water distribution loss indicators would most likely be included as 'improvement targets' for the relevant department. However, in Supporting Table SA7 these measures are classified by vote and function.

Most of the indicators and benchmarks are long-established and are self-explanatory. However, advances in accounting have meant that there is a difference between 'employee costs', mainly due to the capitalisation of some of these costs, and 'remuneration'. The 'employee costs' measure expresses this expenditure item as a percentage of total revenue. The 'remuneration' measurement is also a percentage of total revenue. If there is a substantial variation between the two indicators then municipalities should carefully examine their budgeted employee costs to ensure that remuneration changes have been factored in. The remuneration measure uses the 'Total of managers and staff' from Supporting Table SA22.

3.5.7 Supporting Table SA9 Social, economic and demographic statistics and assumptions

The table requires information from municipalities relating to their local circumstances. The table can also be developed by municipalities to suit their local situation – it is soft protected so extra rows can be added. The aim of this supporting table is to provide a basis for some strategic service delivery decisions; e.g. an examination of stratified population 'growth' information can provide the basis for service and infrastructure planning, and provide a common focus for the elaboration of social and economic assumptions made in the preparation of the budget.

- **Demographic** information is required to prompt a municipality to analyse the impact that demographic changes will have on future budgets. There is a focus on certain age groups as growth or decline in these groups will likely have an impact on the future formation of households, and the number of households is strongly linked to the delivery of municipal services, especially core basic service delivery.
- **Household income** and poverty information is required to understand the likely impact that changes will have on the ability of a municipality to generate revenue from the provision of services. Increasing poverty levels may inhibit budget sustainability, whereas household income growth may improve 'ability to pay' for services.
- **Housing statistics** are also required. It is important to understand what both the public and private sector impact is likely to be.

  A contentious issue relates to housing targets, which is not a specific municipal responsibility - although there are moves to have the function assigned to municipalities. Nevertheless many municipalities may be acting as construction agents. Some even fund housing developments themselves. Municipalities also provide 'top-up' funding to support a higher standard of top structure. There is also a direct link between housing provision and other basic service delivery targets. The aim of this aspect of the table is to force the reconciliation between the community's total demand for housing, what is expected to be met by the private sector, provincial action and municipal commitments.
- **Economic and collection rate assumptions** are crucial elements for the development of an MTREF. Municipalities should refer to economic information guidance from the annual MFMA Budget Circular issued by National Treasury. Collection rate assumptions should be developed based on the guidance provided for Supporting Table SA10. Municipalities may need to include separate property rates and various service charge collection rates depending on their own circumstances of how services are delivered, and if there is variability between the rates of collection of each revenue type.

3.5.8 Supporting Table SA10 MFMA funding compliance

This is a key table for supporting the evaluation of MFMA funding compliance of municipal budgets, by requiring a series of related indicators intended to be evaluated collectively. Positive cash balances, operating surpluses and realistic collection and debt impairment assumptions are fundamental to the analysis. Analysis of previous historical trends can support a conclusion as to whether funding targets are realistic.

The only data that needs to be entered into this table is the summary of transfers/grants by national and provincial governments and other sources, for the purposes of calculating the indicator to ensure that all funds have been budgeted.

A separate guide has been issued for the interpretation of the information presented in this table, and this will not be repeated here. The **MFMA Funding Compliance** guide is available at: http://www.treasury.gov.za/legislation/mfma/guidelines/default.aspx

However, it should be emphasised that funding compliance is a **'self-test**' intended to provide information to every municipality to ensure that only compliant budgets are tabled and approved by Councils. In this regard, and acting in terms of section 74 of the MFMA, National Treasury requests all municipalities to submit the following information along with their annual budgets:

- Supporting Table SA10 of the new formats;
- A narrative assessment of each of the funding compliance variables noted in the *MFMA Funding Compliance Guideline*; and

- An indication of any steps the municipality took in preparing its annual budget in response to its funding compliance assessment in order to ensure better compliance with section 18 of the MFMA.

3.5.9 Supporting Table SA11 Property rates summary

Requires crucial property rates information, specifically designed to assist with the budget information requirements of implementing the Municipal Property Rates Act (MPRA).

3.5.10 Supporting Tables SA12-A13 Property rates by category

This information is also intended to assist with the implementation of the MPRA. Both the current year and the budget year data is required to ensure that the budget clearly illustrates trends and changes. Both the current year and budget year are contained within the same worksheet for ease of comparison during budget preparation.

3.5.11 Supporting Table SA14 Household bills

This information is required as a comparison of various municipal bills, indicating the cost implication on households of proposed rates and tariff changes. Municipalities are required to select examples of municipal bills that are generally representative of households in their areas that align to the land size and service consumption characteristics referred to at the bottom of the table.

An illustration of a typical 'poor' household should also be included. Whilst it is not expected that there would be any change in a 'free' bill if only free levels of services were consumed, however if these households make contributions for some services; e.g. refuse, or consume slightly above the level of free services provided, then this can often translate into material percentage increases even though the magnitude of the bill may not be large.

3.5.12 Supporting Table SA15 Investment particulars by type

This table is self-explanatory. It must present both 'parent' and municipal entity (if any) investments and must reconcile to the Budgeted Financial Position. The description particulars seek to capture all possible categories of investment. If the municipality needs to add additional rows this can be done, given that the sheet is soft protected.

3.5.13 Supporting Table SA16 Investment particulars by maturity

This table is also self-explanatory and must present both 'parent' and municipal entity (if any) investments and reconcile to the Budgeted Financial Position.

3.5.14 Supporting Table SA17 Borrowing

This table is required to agree to the total borrowing liability. Any new borrowing proposals need to be assigned to the appropriate category.

3.5.15 Supporting Tables SA18-A20 Transfers and grant receipts, expenditure and unspent funds reconciliation

These tables are intended to ensure all transfers and grants are included as well as providing the basis for expenditure compliance against transfers and grants legislation, especially the annual Division of Revenue Act. Refer to paragraph 3.1. Step 5 for instructions on the use of the drop-down' validation boxes.

Supporting Table SA18 is the 'cash receipts' of all transfers. Supporting Table SA19 is the expenditure against each transfer/grant item. Supporting Table SA20 is the reconciliation between receipts, expenditure and the unspent transfer balance shown in the Budgeted Financial Position. The reconciliation is only required by national, provincial, district and 'other' totals. This is to prevent the reconciliation being inordinately large, as some municipalities have a large number of transfer/grant types. Municipalities would have detailed reconciliations to support the totals included within Supporting Table SA20. It is very important to keep this reconciliation up-to-date, as National Treasury is now actively enforcing the Division of Revenue Act requirement that unspent conditional grant funds must be returned to the National Revenue Fund.

3.5.16 Supporting Table SA21 Transfers and grants made by the municipality

The main purpose of this table will be to record allocations by the municipality to other municipalities that are not captured in Supporting Table SA1, municipal allocations to entities (not including commercial fee-for-service payments), or grants to other organisations and categories of individuals (such poor households or pensioners). These grants may include 'in-kind' reductions of property rates and other service charges made for charitable or other social purposes. Note that these 'grants' do not cover rate reductions or service give-aways that are 'generally available to all'. For more details on this see the text box on page 14.

3.5.17 Supporting Tables SA23-SA24 Councillor and staff benefits and personnel numbers

These tables are intended to ensure MFMA information compliance. They include percentage increases to indicate changes in numbers and remuneration levels. An additional personnel requirement is to disclose both full-time equivalent and head-count providing summary level information on the degree of reliance on part-time personnel.

3.5.18 Supporting Table SA25-SA30 Monthly revenue, expenditure and cash flow

These tables, with Supporting Tables SA28 and SA29 provide the basis for performance comparisons in the monthly budget statement and mid-year performance assessment, as well as enabling municipalities to align financial measures to service delivery timing. Supporting Table SA30 presents both the cash capital and operating views, reconciled to the cash balance.

It is highly improbable that revenue, expenditure and cash flows occur equally each month. Therefore municipalities should not simply divide the budgeted amount by twelve. The 'seasonality' of the timing of revenue and operational expenditure should be introduced after examining historic trends. Capital expenditure information should be directly related to capital project management, and anticipate the timing and completion of stages of capital projects. Some financial management software allows for past trends to be automatically timed into monthly budget estimates.

A simple approach has been used to ensure that the sum of monthly targets is equal to the total annual budget. Data entry is only required for the months July to May. The amount for June is assumed to be the difference between the sum of the data entered for July through to May less the annual budget.

3.5.19 Supporting Table SA31 Aggregated entity budget

This table has been included specifically for stakeholder consultation, to portray the impact on the budget that the total municipal entity operations make. Whilst all entity budgets would

be individually presented to Council, and also consolidated within the municipality's budget, it is a requirement that a table be included for the aggregate of all entities. This indicates to the Council the aggregate reliance on entities for the delivery of municipal services.

3.5.20 Supporting Table SA32 List of external mechanisms

The purpose of this supporting table is to ensure that the Council and community are aware of the extent to which service delivery is being performed by external mechanisms such as contractors or PPPs. It is often the case that people see services being performed, but are not aware that the staff work for independent contractors who may be working under different employment conditions to 'permanent' municipal staff. This approach may be an appropriate strategy for service delivery flexibility and even quality improvement, but it does have risks especially if the conditions of employment of municipal and contract staff are very different.

3.5.21 Supporting Table SA33 Contracts having future budgetary implications

The purpose of this supporting table is to ensure that users are aware of the material long term contractual commitments of a municipality. It must be noted that this table only applies to contracts referred to in section 33 of the MFMA. If a contract has been in existence for more than one preceding year then only the total of the previous payments under the contract need to be shown.

It is likely that most contracts are of an expenditure nature. But there are instances where municipalities also enter into long term arrangements for revenue; e.g. right to use a facility.

3.5.22 Supporting Tables SA34a, b and c Capital expenditure by asset class

These three tables provide the detail of information captured on Ta0ble A9. Supporting Table SA34a deals with capital expenditure on new assets, Supporting Table SA34b deals with capital expenditure on the renewal of existing assets, and Supporting Table SA 34c looks at operating expenditure on repairs and maintenance. See the discussion in the text box on page 20 regarding distinguishing between these three different categories of expenditure.

Repairs and maintenance should reflect all the costs involved - employee costs, contracted services and other materials.

Asset category information is useful for asset management purposes, generally grouping like information together.

3.5.23 Supporting Table SA35 Future financial implications of the capital budget

The objective of this MFMA requirement is to understand the future impact of capital projects on the municipality's budget. Too often capital expenditure occurs without an understanding of the revenue and operational expenditure implications of implementing such projects, and the investment is later seen to be unaffordable and unsustainable.

The supporting table must capture the revenue, operating and capital expenditure implications of the approved capital budget. It assumes that these requirements would need to be calculated for each individual capital project, but only summarised on this table. A key feature of the table is that forecast estimates are required for 3 years after the MTREF period, and a present value calculation included for the expected life of the asset. The present value requirement is for capital, operational expenditure and revenue implications, and will highlight the full 'net' magnitude of a capital project's impact on future budgets.

3.5.24 Supporting Table SA36 Detailed capital budget

The detailed capital budget is an operational SDBIP requirement. However, due to Council and community interest in the capital programme it is common for municipalities to include the full programme as an annexure to the budget document. This is not intended to encourage Councils to adopt the capital budget at a project level, unless an individual project is above the threshold values specified in regulation 13 of the Municipal Reporting Regulations. The emphasis is for Councils to approve a strategic capital programme that improves not impedes service delivery.

Refer to the paragraph related to Supporting Table SA6 for an explanation of the IDP code requirements.

3.5.25 Supporting Table SA37 Projects delayed from previous financial year/s

The purpose of this table is to provide some protection to Councils who are concerned that previously approved projects are not being completed and are being 'lost' in other priorities. All approved, uncompleted projects from prior years must be disclosed, displaying when the project was due for completion, what the original budget was assigned, and what future allocations are now proposed. This table will also highlight where projects consume substantially more resources than originally approved. The intent is also to provide a basis for reconciling any action taken under section 31 of the MFMA (shifting of funds).

3.6 Charts to illustrate the municipal budget

The proposed standard charts have been provided in a separate Excel workbook: **A2 – Municipal Budget Charts.** In order to populate the charts information from the A1 – Schedule Municipal Budget needs to be copied over into the relevant places in the A2 – Municipal Budget Charts. The format of the data required to populate the charts has been constructed to enable relatively easy copying.

The reason for this approach is that the inclusion of the graphics in the budget templates, linked to the tables, would result in a very large file that challenged the graphical capability of one file. There was a concern that municipalities with older systems may not have the capacity to operate this file.

It is worthwhile noting that some people prefer receiving information in a written form, but others prefer a graphical analysis. A danger is that 'sometimes' the people preparing budgets are 'financially' inclined and unable to fully appreciate the power of a graphical analysis, and therefore these professionals should seek out a broader opinion on how the budget message should be best conveyed. However, to cater for both groups of people the charts should also be accompanied by a written comment on what the chart is showing.

Alternative chart styles have been provided for evaluation in some instances. Charts include 'stack bar' styles, which may possibly be more complicated to construct as it is impacted on by the necessity to arrange the revenue items so that a comparison is readily possible. Large fluctuations in amounts may make this difficult. The advantage of this style of chart is that it tells two 'stories', being a comparison of individual components as well as the overall trend. The basic pie chart alternative is easier to construct, makes comparisons of values more evident, but loses the comparison of the total trend.

The proposed charts also provide for the inclusion of a series of charts to assist with highlighting funding compliance and related attributes; e.g. what borrowing level does the budget propose, how is the budget supported by tariff increases and are these reasonable relative to national economic guidelines?

The following charts are included in the A2 – Municipal Budget Charts workbook::

(a) Financial Performance
- Revenue by Major Source
- Revenue by Minor Source
- Operating Expenditure by Major Type
- Operating Expenditure by Minor Type
- Revenue by municipal vote classification
- Expenditure by municipal vote classification
- Revenue by Standard Classification
- Expenditure by Standard Classification

(b) Capital expenditure
- Capital Expenditure by Standard Classification
- Capital Expenditure by Municipal Vote - Major
- Capital Expenditure by Municipal Vote - Minor
- Capital funding by source

(c) IDP
- IDP Strategic Objective - Revenue
- IDP Strategic Objective - Expenditure
- IDP Strategic Objective - Capital Expenditure

(d) Miscellaneous
- Cash flow trend
- Increases in service charges
- Revenue collection rates
- Borrowing
- Distribution losses
- Borrowed capex funding
- Expenditure analysis (Employee costs)
- Expenditure analysis (Remuneration)
- Expenditure analysis (Repairs & Maintenance)
- Expenditure analysis (Finance Charges)
- Expenditure analysis (Depreciation)

4 Using the adjustments budget format

4.1 Preparation of adjustments budget template

To use the adjustments budget template, you will first need to customise the template with information specific to your particular municipality. The steps to do this are the same as those outlined for the annual budget, and are outlined in section 3.1 above.

Only the date and reporting period entry differ slightly.

Select the date of the adjustments budget as well as the budget year (MTREF) during which the adjustment budget is required to be approved by the Council. These selections only change column headings and not any data within the format.

4.2 Entering data in the adjustments budget templates

One of the aims of the template is to simplify input requirements. Cells where data is required are colour-coded yellow. Text, totals and sub-total cells are protected from data entry to ensure that users do not mistakenly enter information in these cells and so disrupt the architecture of the spreadsheets.

Note that all finance related information must be entered in thousands of Rands (R 000's), unless it is clear from the context that another format is required – for instance when reporting on tariff rates.

The following tables are linked, and information needs to be entered in sequence:

- Data for Tables B2, B3 and B5 is entered on the corresponding working Tables B2B, B3B and B5B. Information is entered in more detail on these tables and then summed and carried over to the main tables.
- Supporting Table SB1 contains detailed information for the Adjustments Budget Financial Performance and is linked to Table B4. Supporting Table SB1 should be completed before finalising Table B4 Adjustments Budget Financial Performance.
- Supporting Table SB2 contains detailed information for the Adjustments Budget Financial Position and is linked to Table B6. Supporting Table SB2 should be completed before finalising Table B6 Adjustments Budget Financial Position.

4.3 Finalisation of reports

Finalisation of the report entails hiding the reference columns and clearing the shading to create the final tables and supporting table formats that can be printed or copied (without reference and explanatory text) to produce a report for the mayor and Council.

Follow the steps indicated in section 3.3 above:

4.4 Guidance on the prescribed adjustments budget tables

An adjustments budget report should focus on the reconciliation of adjustments between the 'original' budget (or an earlier adjustments budget approved during that financial year) and the adjustments budget to be approved.

An adjustment budget must be supported by the most recent monthly budget statement, which will provide the necessary financial assessment and variance analysis on which a recommendation to adjust a budget will be based. For example, an adjustment budget following from the mid-year budget and performance assessment in January of each year (MFMA section 72) would be supported by a monthly budget statement for the period and month ended 31 December.

The common heading structure of the adjustments budget format is presented below. The adjustment columns in the format are aligned to the specific requirements of section 28 of the MFMA.

Budget Year 2010/11									Budget Year +1 2011/12	Budget Year +2 2012/13
Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
	5	6	7	8	9	10	11	12		
A	A1	B	C	D	E	F	G	H		

- Column A shows the original budget for the financial year;
- Column A1 shows the outcome of any prior adjustments budgets;
- Column B (Accumulated funds) is used for adjustments resulting from unspent funds at the end of the past financial year. The MFMA only allows such adjustments if the "underspending could not have been reasonably foreseen when the annual budget for the current year was approved". To illustrate, if it was highly probable that under-performance at the time of the approval of the budget would have resulted in under-expenditure then a municipality would be unable to adjust the following year's budget. In terms of regulation 23(5) such adjustments budgets must be tabled in Council before 25 August each year.
- Column C is included to allow municipalities to explain changes to a multi-year capital appropriation. These changes are highlighted separately so that the requirements of section 31 of the MFMA can be proven. For example, an increase cannot exceed 20 per cent of that year's appropriation and is funded within the following year's appropriation. Therefore, the 'Budget Year +1 column' would include a reduction to allow for the funding of the appropriation. Inclusion of adjustments does not obviate the need for the specific approval requirements of section 31. Even though multi-year appropriations of expenditure impact specifically on the capital budget the column is also included in the Financial Performance tables to allow for the circumstance where a multi-year adjustment has a simultaneous impact on depreciation expenses or transfers and grants; e.g. if the appropriation increase brings forward the capitalisation date and therefore has a subsequent impact on the depreciation expense estimates, or where an appropriation is increased to provide matching or contributory funds by external organisations. Note that, if the appropriation change is caused by an increase in a national or provincial transfer then this item must be included under Column E, with a report note that it relates to a multi-year appropriation.
- Column D supports adjustments authorised in terms of section 29 of the MFMA.
- Column E supports the adjustment of programmes and projects supported by national or provincial government funding. A change in a transfer/grant will impact on the 'transfers recognised' items of the Financial Performance Budget.
- Column F provides for 'other adjustments', including savings in one vote being applied to another vote or correcting 'errors' in the original budget.
- Column G is the total of all adjustments being recommended.
- Column H is the recommended Adjustments Budget, being the original budget plus recommended adjustments, or any previous adjusted budget expenditure plus recommended adjustments.
- Budget Year +1 and Budget Year +2 columns are included to allow for current year adjustments that impact on the two (2) 'outer years'; e.g. a change in an appropriation in accordance with section 31 of the MFMA.

Adjustment budget Tables B1 to B10 have the same subject content as the budget Tables A1 to A10, with the exception that the column information is designed to provide detailed

information on how a budget is proposed to be adjusted. Users should refer to section 3 for 'Guidance on the prescribed budget tables' for explanations of the basis of each of the tables. The background information discussed in section 2 should be generally applied in the completion of each of the tables for adjustment budget purposes. The only table where there is a notable difference in the way the tables are completed is Table B8 Cash backed reserves/accumulated surplus reconciliation.

4.4.1 Table B8 Cash backed reserves/accumulated surplus reconciliation

The objective of this table is to understand how the adjustment budget proposals impact on the budget cash backing. Therefore, the analysis comparing available funds with the application of funds is only undertaken for the original budget, any prior adjusted budget, the proposed adjusted budget and the two (2) outer year projections. Be careful to include the appropriate input in the working notes below the main table. The formula in 'reserve cash-backing' assumes that certain reserves are 100 per cent 'cash-backed', but these assumptions should be amended in accordance with the approved Council policy.

4.5 Guidance on the Supporting Tables to the adjustments budget

4.5.1 Supporting Table SB3 Adjustments to the SDBIP – performance objectives

This supporting table provides users with a reconciliation of the impact of adjustments on the non-financial performance targets. For example, if a capital programme is increased or reduced, and that change affects the performance targets, then the adjustment columns should show the difference. To illustrate, if the original budget had a target of new road construction of 100 kilometres, but additional funds will allow a target of 105 kilometres to be achieved, then the target adjustment is 5 kilometres.

IMPORTANT: only show the targets that are revised as a consequence of the adjusted budget. Do not show targets that are not affected by the adjusted budget.

4.5.2 Supporting Table SB4 Adjustments to budgeted performance indicators and benchmarks

Unlike other tables and supporting tables the performance indicator table includes three prior years of 'audited outcomes'. It is important for users to understand the context in which the performance indicators may change as a consequence of adjustments to the budget. This information can be readily obtained from the original budget document.

4.5.3 Supporting Table SB5 Adjustments Budget – social, economic and demographic statistics and assumptions

This table shows whether there have been any changes in key assumptions on which the budget was based. For example, if it was assumed that interest rates would remain stable, and an unexpected increase occurred, then this may impact upon the 'finance charges' budgeted for variable and new borrowing.

4.5.4 Supporting Table SB6 Adjustments Budget - funding measurement

This table includes three prior years of 'audited outcomes' for users to understand the context in which the funding measurement criteria changes as a consequence of adjustments to the budget. This information is available in the original budget document.

The use of the surplus/(deficit) *before transfers capital* in 'Surplus/(Deficit) excluding depreciation offsets' is aimed at providing a realistic gauge of a municipality's funding compliance.

4.5.5 Supporting Tables B12 to B17 Adjustments Budget - monthly targets

These tables allow the monthly targets to be adjusted to agree to the proposed adjustments budget. The table formats are very similar to the equivalent tables in the original budget, except for the headings. For each of these tables the actual outcomes for each month need to be included in the historic months. For example, if the adjustments budget is as a result of the section 72 mid-year budget and performance assessment then the first six (6) months would have 'Outcome' headers, with the remaining months described as 'Adjusted Budget'. The sum of the 12 months must agree with the proposed adjustments budget for each line of each of the six tables. Note that financial data can only be entered for the 11 columns July to May, with the difference automatically included in June by formula.

4.5.6 Supporting Table SB19 List of capital programmes and projects affected by Adjustments Budget

This table, as implied by the title, is only required to show the programmes and projects that are amended as a consequence of the adjustments budget.

4.6 Adjustments budget charts

The formats do not contain specific charts. The charts accompanying the most recent monthly budget statement will most likely be applicable to matters under consideration in a proposed adjustments budget; e.g. capital expenditure trend, debtors' aged analysis. However, the charts used for the original budget should be examined to ascertain whether the proposed adjustments materially affect the outcome shown in the chart and, if so, an adjusted chart should be included.

5 Using the monthly budget statement format

The overall aim of the monthly budget statements is to facilitate compliance with the MFMA, especially section 71, and also to ensure that there is a seamless link to the related requirements of the mid-year performance assessment.

To conduct the mid-year performance assessment requires that the December s71 report (for the period ending 31 December) must ***first*** be prepared to explain the progress made in achieving the original budget. Any variance explanation should serve as a basis for consideration of the need for an adjustments budget.

5.1 Preparation of monthly budget statement template

In order to use the monthly budget statement template, you will first need to customise the template with information specific to your particular municipality. Follow the steps outlined in section 3.1 above.

Only the reporting period and MTREF entries differ slightly:

Select the month of the monthly budget statement as well as the budget year (MTREF) during which the monthly budget is required to be approved by the Council. These selections only change column headings and not any data within the format.

5.2 Entering data in the monthly budget statement template

One of the aims of the template is to simplify input requirements. Cells where data is required are colour-coded yellow. Text, totals and sub-total cells are protected from data entry to ensure that users do not mistakenly enter information in these cells and so disrupt the architecture of the spreadsheets.

Note that all finance related information must be entered in thousands of Rands (R 000's), unless it is clear from the context that another format is required – for instance when reporting on tariff rates.

Date for Tables C2, C3 and C5 is entered on the corresponding working Tables C2C, C3C and C5C. Information is entered in more detail on these tables and then summed and carried over to the main tables.

5.3 Finalisation of reports

Finalisation of the report entails hiding the reference columns and clearing the shading to create the final tables and supporting table formats that can be printed or copied (without reference and explanatory text) to produce a report for the mayor and Council.

Follow the steps indicated in Section 3.3 above:

5.4 Guidance on the prescribed monthly budget statement tables

A monthly report should focus on the performance for the relevant period of the financial year, and therefore only the previous year's estimated outcome or audited outcome (when it is available) is presented for comparative purposes. Usually the budget is approved before the revenue and expenditure outcomes of the previous financial year are known. However, it would be useful to compare the prior year's spending trends with those of the current year. This is because the trends towards the end of that year may continue into the current year.

The common heading structure of the Monthly Budget Statements:

Description	2009/10	Budget Year 2010/11							
R thousands	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast

- s71 (1) requires that the report must show both the particulars for the 'month' and for the financial year up to the end of 'that' month. Therefore, the format provides for columns for a 'monthly actual' and a year-to-date (YTD) actual. The focus of the variance analysis will be an examination between the YTD actual and the YTD budget target, but the monthly 'actual' assists analysis by clarifying most recent performance outcomes.
- s71 (1) requires that explanations of material (refer to Supporting Table SC1) variances 'by revenue source and expenditure per vote' are required to be included in the report. To enable the variances to be calculated the tables contain a YTD budget column (which should be reconciled to the sum of the first six months of the monthly tables

approved with the budget), a YTD variance column and a YTD variance percentage column. It is expected that each municipality would have a budget policy that defines the meaning of a material variance to meet the circumstances of the municipality, taking into consideration any direction that may be made in the regulations. The policy would most probably refer to both a minimum percentage and value; e.g. all YTD variances of 5 per cent or more and a minimum value of R100 000 must be explained. The value threshold will vary depending on the size of the municipality.

- On a quarterly basis the material deviations against performance targets should also be discussed in the format of Supporting Table SC1. To achieve this requires that the SDBIP budget format must include the performance targets for each quarter.
- Where an adjustments budget has previously been approved by the Council, it is expected that the YTD 'budget' column would represent the revised monthly timing of revenue, expenditure or cash flow.
- s71 (2) requires that the report must also include a projection for the rest of the financial year and any revisions from the original projections. This requirement is met by the inclusion of a 'forecast' column, which is intended to show the most recent expected full year forecast, as well as an 'adjusted' budget column indicating any revisions that had previously been approved by Council. A different interpretation might be that any 'net' change should also be presented as a separate column to display any revisions. However, this interpretation has not been applied, but rather the revisions are implied by comparing the difference between the 'approved' and 'adjusted' columns. This approach was taken to minimise the number of columns in the formats and to avoid duplication.

A number of the core tables and the supporting tables of the monthly budget statement formats are aligned to the budget and adjustments budget formats to ensure that financial outcomes are effectively evaluated. There are some details of the original budget that are not reported on on a monthly basis, because these items are considered to be more of a strategic nature. Indeed it would be difficult to do complete reviews of this information on a monthly basis. Also little value would be added if they were to be considered so regularly. These items include:

- **Cash backed reserves/accumulated surplus reconciliation** - it is expected that this item would be reviewed only in conjunction with an adjustments budget, when funding could be amended. A monthly budget statement should not impact on funding arrangements.
- **Asset management** - it is also expected that this item would be only reviewed in conjunction with an adjustments budget, when the asset strategy could potentially be amended. However, such an in-year change to the asset management strategy would be indicative of a poor initial strategy. A monthly budget statement should not impact on asset management strategy considerations.
- **Basic service delivery measurement** - it is only expected that this item would be reviewed in conjunction with the mid-year review, when targets could possibly be amended. A monthly budget statement should not impact on these targets.

5.4.1 Table C2 Monthly Budget Statement - Financial Performance (revenue and expenditure by standard classification)

The data is entered according to standard classification and must be entered at the sub-function level on Table C2C.

5.4.2 Table C3 Monthly Budget Statement - Financial Performance (revenue and expenditure by municipal vote)

After entering the revenue and expenditure data you need to ensure that total revenue, total expenditure and the surplus/deficit agree with the totals on Table C2.

5.4.3 Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure)

After entering the revenue by source and expenditure by type, you need to ensure that total revenue, total expenditure and the surplus/deficit agree with the totals on Table C2 and C3. Below the main table is a note show "revenue total" (which includes capital transfers and contributions). This is shown to assist with checking the totals.

5.4.4 Table C5 Monthly Budget Statement - Capital Expenditure (municipal vote, standard classification and funding)

The data must be entered at the sub-item level on Table C5C.

Note that the municipality may have approved multi-year and single year capital expenditure appropriations. If so, data will need to be entered into two sections on this table. Table C5 is a dual purpose capital expenditure report; it shows capital expenditure by both vote and standard classification. Any municipality that has aligned its vote structure to standard classification is only required to complete the 'standard classification' section.

When completing the 'funding' section of the table, note that the 'revenue' is only earned and reported here if the project conditions have been met. This usually means that the expenditure was incurred for the purposes for which it was received. The assignment of borrowing and internally generated (own funds) revenue would be supported by the municipality's capital project expenditure system. Capital expenditure not funded by transfers/grants or contributions would be funded by either 'internally generated funds' or borrowing. Municipalities would normally have identified in their capital budget the allocation of internally generated funds and borrowing to individual programmes and projects.

5.4.5 Table C6 Monthly Budget Statement - Financial Position

This table only provides for an update of year-to-date and forecast outcome information on a monthly basis. Monthly budget targets for the budgeted financial position are not required as part of the annual budget. Variance analysis should be undertaken on the basis of possible divergence from the year-end position of the previous financial year.

5.4.6 Table C7 Monthly Budget Statement - Cash Flow

You need to ensure that the 'cash/cash equivalent' closing balance agrees with the 'cash/cash equivalent' items on Table C6.

Cash/cash equivalent = Cash + Call Investment Deposits – Bank Overdraft. The definition of cash/cash equivalents excludes short term investments that are longer than 90 days.

5.5 Guidance on the Supporting Tables to the monthly budget statement

5.5.1 Supporting Table SC1 Material variance explanations

For all items that exceed the municipality's budget variance policy you must enter appropriate explanations.

Note that the municipality is only required to report on measurable performance objectives every quarter. However, a municipality may choose to report on these objectives on a monthly basis. The table provides for this.

5.5.2 Supporting Table SC2 Monthly Budget Statement - performance indicators

Most of the required information in this table is calculated from data entered into other tables. The yellow shaded items show where data is required to complete the analysis.

5.5.3 Supporting Table SC3 Monthly Budget Statement - aged debtors

Note that the aging days must be counted from the 'date of the bill' not the 'due date of the bill'. For example, if all current billing occurred on the 5th day of the month then the total unpaid debtor value at the end of that month would be shown in the 0-30 day category. The 'bad debts' column relates to actual amounts written off in that month by Council resolution. The column '>90 days' is for performance indicator calculation purposes only and is not included as part of the reported table.

The information in this supporting table serves as an early warning in the monitoring of the achievement of revenue collection targets.

5.5.4 Supporting Table SC4 Monthly Budget Statement - aged creditors

This supporting table provides information for monitoring the achievement of targets related to the payment of creditors.

5.5.5 Supporting Table SC5 Monthly Budget Statement - investment portfolio

This information is required in terms of regulation 9 of the Municipal Investment Regulations (2005). The regulation requires both municipalities and municipal entities report this information.

5.5.6 Supporting Table SC6 Monthly Budget Statement - transfers and grant receipts

Select the name of the transfer/grant and enter the required information. Note that the amounts required are 'receipts'. Do not include revenue 'earned', although in the case of unconditional transfers the amounts will be the same. Total amounts should agree with the totals shown on Table C7'.

5.5.7 Supporting Table SC7 Monthly Budget Statement - transfers and grant expenditure

Select the name of the transfer/grant and enter the required information. Note that the amounts required is the actual expenditure made against the 'receipts' displayed in Supporting Table SC6.

5.5.8 Supporting Table SC9 Monthly Budget Statement - actuals and revised targets for cash receipts

You may need to amend the 'outcome/budget' column headings depending on the month of the report. For example, a report for the period ended December 31st would display six (6) columns of 'outcome' information and six (6) columns of 'budget' information.

The month of June is protected to ensure that the sum of all months agrees with the total approved or adjusted budget. The projections for the 'budget' month may vary from the original budget or adjustments budgets depending on the actual outcomes. Care should be taken to ensure that receipts and payments are reported (not revenue and expenditure).

5.5.9 Supporting Table SC10 Monthly Budget Statement - Parent Municipality Financial Performance (revenue and expenditure)

This supporting table is only required if a municipality has entities. It shows the financial performance of the 'parent' municipality exclusive of its entities. This is because the prescribed monthly budget statement tables are required on a consolidated basis.

5.5.10 Supporting Table SC11 Monthly Budget Statement - summary of municipal entities

All entities are required to lodge similar financial information as the s71 report to their parent municipality in accordance with section 87 of the MFMA. It is expected that municipalities, especially those with a number of municipal entities, could include the s87 entity reports as annexures to their s71 report. This table provides a view of the total impact of entities on the financial performance and financial position of the municipality. Only summary revenue and expenditure information for each entity is included in the table. Municipalities without entities are not required to produce the table.

5.5.11 Supporting Table SC12 Monthly Budget Statement - capital expenditure trend

The purpose of this table is to provide a comparison of monthly capital expenditure against the monthly targets in the original budget, or revised targets in an adjustments budget (if any) and in the context of the previous years performance trend. The aim is to assist municipalities improve their monthly budget projections, to more fully appreciate the seasonality of capital expenditure outcomes and the necessity of aligning project management plans and procurement requirements. Unlike operating expenditure, which can have a regular seasonality, capital expenditure can vary markedly from one month to another and can have a substantial impact on effective cash flow planning and borrowing plans.

5.6 Monthly budget statement charts

The monthly budget statement format contains five charts, considered to be the minimum necessary to explain key monthly trends in a monthly report. The charts are:

- Capital expenditure monthly trend
- Capital expenditure year-to-date trend
- Aged consumer debtors
- Consumer debtors by category
- Aged Creditors

These charts could be supplemented with other charts relevant to explain the special circumstances of individual municipalities. The charts are linked to the data in the tables and supporting tables.

6 Municipal entities

There is a separate set of worksheets (Schedules D to F) that provide for the budgets, adjustments budgets and monthly financial statements of municipal entities.

Obviously, these worksheets are only relevant to those municipalities that have municipal entities.

By and large the guidance provided in this guide is also applicable to municipal entities – though the numbering of the spreadsheets differs.

Annexure A: Specimen budget resolutions

The following specimen budget resolutions are provided to assist municipalities when preparing their budget documentation for presentation to Council. Each municipality will need to adapt the resolutions according to its needs.

Proposed budget resolutions:

1. That in terms of section 24 of the Municipal Finance Management Act, 56 of 2003, the annual budget of the municipality ** for the financial year 2###/##; and indicative allocations for the two projected outer years 2###/## and 2###/##; and the multi-year and single year capital appropriations are approved as set-out in the following tables:

1.1 Budgeted Financial Performance (revenue and expenditure by standard classification);

1.2 Budgeted Financial Performance (revenue and expenditure by municipal vote);

1.3 Budgeted Financial Performance (revenue by source and expenditure by type); and

1.4 Multi-year and single year capital appropriations by municipal vote and standard classification and associated funding by source.

2. That the financial position, cash flow, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are adopted as set-out in the following tables:

2.1 Budgeted Financial Position;

2.2 Budgeted Cash Flows;

2.3 Cash backed reserves and accumulated surplus reconciliation;

2.4 Asset management; and

2.5 Basic service delivery measurement.

3. That the consolidated budget that includes the financial impact of all municipal entities is noted.

4. That in terms of section 24(2)(c)(i) and (ii) of the Municipal Finance Management Act, 56 of 2003 and sections 74 and 75A of the Local Government: Municipal Systems Act, Act 32 of 2000 as amended, the tariffs for the supply of water, electricity, waste services, sanitation services and property rates as set out in Budget Chapter 21 and annexures X, X, X, X, and X respectively that were used to prepare the estimates of revenue by source, are approved with effect from 1 July 2###.

5. That in terms of section 5 of the Municipal Property Rates Act, 6 of 2004, the rates policy (or the amendments to the rates policy) as set out in Budget Chapter 19 and Annexure X is approved.

6. That in terms of section 24(2)(c)(iii) of the Municipal Finance Management Act, 56 of 2003, the measurable performance objectives for capital and operating expenditure by vote for each year of the medium term revenue and expenditure framework as set out in Supporting Table SA7 are approved.

7. That in terms of section 24(2)(c)(iv) of the Municipal Finance Management Act, 56 of 2003, the amendments to the integrated development plan as set out in Budget Chapter 17 are approved.

8. That in terms of section 24(2)(c)(v) of the Municipal Finance Management Act, 56 of 2003, the budget-related policies, including any amendments as set out in Budget Chapter 19 are approved for the budget year 2###/##.

9. That the Basic Services Package as set out in Budget Chapter XX is approved for the budget year 2###/##.

** Being the parent municipality if the municipality has entities.

(Delete as applicable)

References

Guess, G. M. (Ed.) (2007) Fast Track: Municipal Fiscal Reform in Central and Eastern Europe and the Former Soviet Union, Open Society Institute, Budapest.

Honadle, B. W., Costa, J. M. and Cigler, B. A. 2004. Fiscal Health for Local Governments: An introduction to Concepts, Practical Analysis, and Strategies, Elsevier Academic Press, San Diego.

Tonko, A. 2007. In Fast Track: Municipal Fiscal Reform in Central and Eastern Europe and the Former Soviet Union(Ed, Guess, G.) Open Society Institute, Budapest, pp. 99-148.