



Local Government Budget Guide

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PREFACE

In 2002, Idasa's Budget Information Service published a Budget Guide and Dictionary for South Africa, by Alison Hickey and Albert van Zyl. The 2002 Budget Guide, containing an accessible overview of the South African budgeting system and processes with a focus on national and provincial government, has been in high demand. Based on the concept, this Local Government Budget Guide has been developed, in order to provide citizens and officials with a practical guide to local government budgets.

The authors would like to thank Danida for providing the funding to make this guide possible, as well as Ford Foundation for their continued support to Idasa's Budget Information Service, without which this guide could not be developed.

Much of this guide has been based on research done by Paul Whelan, particularly regarding the fiscal policy framework for local government. Thank you. A further thanks goes to Len Verwey and Nicholas Hansloo for their valuable contributions to and comments on this project, and to units and programmes in Idasa that provided basis materials and input for the development of this guide. Lastly, we would also like to thank Sandra Hill for her great editing recommendations and improvements to the guide.

About Idasa

Idasa is an independent public interest organisation committed to promoting sustainable democracy in South Africa and elsewhere by building democratic institutions, educating citizens and advocating social justice. Registered as a Section 21 company in South Africa, IDASA is a nationally recognised public interest organisation in South Africa. It maintains international links with many similar organisations through the world movement for democracy.

About the Budget Information Service

Idasa's Budget Information Service (BIS) uses data and budget information published by government to analyse revenue and expenditure impacts on the lives of low income, poor and vulnerable communities. This independent research output is used to enhance the role of civil society organizations in their pro-poor and rights-based advocacy work, to inform parliamentarians in their oversight and monitoring of government departments, to engage government officials and influence and advocate budget decisions.

The Sector Budget Analysis Unit (SBA Unit) is one of the units within the BIS programme. The commitment of the Sector Budget Analysis Unit is to build capacity in government, legislatures, NGO's and CSO's to participate meaningfully in budget related decision-making through budget training workshops; and to promote public service policies and budgets that contribute to poverty alleviation through analysis and research dissemination focusing on services that may critically impact on the lives of poor people in South Africa.

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INTRODUCTION

The Local Government Budget Guide is a manual on local government and how to examine its functioning and impact through the lens of budget analysis.

Budget analysis quite simply tells us how much money there is, where it comes from, and what it is spent on. It gives the 'Rands' to the plans and policies outlined by government and for which government is accountable. As such, a budget is more than just a technical document. Instead it reveals government's strategic choices and decisions and is thus an important political tool.

Local government is the closest level of government to the ordinary citizen. It is the eyes and ears of a government, committed to listening to its citizens. It is also usually the first point of contact between citizen and the state when it comes to delivery of government services and development initiatives.

Whether you are a municipal resident wanting street lights erected outside your house or a civil society organisation lobbying for more effective, needs-based spending, or perhaps a newly elected or confused councillor finding your financial feet, this guide will help you understand local government budgets and how to unlock their potential to further your cause.

I. Overview of the guide

The guide is structured to support readers in building their understanding of local government budgets and their capacity to engage in the budget process. It is divided into five parts.

Part I provides a foundation for the rest of the guide by introducing local government, budgets and budget analysis. It provides an overview of the main legislation guiding local government budget processes and introduces the notion of integrated development planning. It also looks at why citizen involvement in the budget process is important and challenges us to play our part in furthering democracy in South Africa.

- Chapter one looks at the notion of budgets and why they are important political tools. It asks why budget analysis is important and what sort of information we can hope to discover from it. Integrated development planning and its relationship with local government budgets is introduced.

- Chapter two describes the legal framework, which governs local government and its budget process. The reporting requirements outlined in the Municipal Financial Management Act are also examined.
- Chapter three explores the Integrated Development Plan and its link with local government budgets further. The chapter examines citizen participation in the budget process and looks at state obligations to facilitate it.

Part II of the guide is aimed at helping the reader develop an understanding of local government by taking a close look at its powers, functions and responsibilities. While local government is always the closest level of government to the people, knowing exactly who or what is responsible for the issue you are interested in, is the first step to taking successful action.

- Chapter four provides an overview of how powers and functions are delegated between tiers of government, and for which services municipalities are responsible. It shows how these responsibilities are further divided between metropolitan, district and local municipalities.
- Chapter five provides a detailed explanation of local government functions and aims to ensure that analysis and advocacy are directed at the relevant sphere of government.

Part III of the guide focuses on the crucial aspect of income, also referred to as revenue. Without revenue, there can be no budget, without a budget no spending; without spending, no service delivery, no development programmes, no vibrant and equitable economy.

- Chapter six looks at the notion of co-operative governance, where financial resources are shared among the levels of government, and at the various sources of revenue available to government.
- Chapter seven examines revenue sources particular to local government, including own revenue and transfers.
- Chapter eight provides detail on the ways local government secures revenue through its own initiative and actions. This is known as 'own revenue'.

- Chapter nine provides detail on transfers made to local government, discussing equitable shares and conditional grants.
- Chapter ten provides opportunity to try out your calculation skills by giving information and examples on the equitable share formula. If calculations and formulas daunt you, try the case studies for an easy synopsis.

Part IV is the hands-on section of the guide. It tackles the nuts and bolts of analysing budgets, from determining your priorities to developing an advocacy campaign.

- Chapter eleven provides a step-by-step guide to budget analysis based on priority identification. It includes a list of most commonly needed documents, as well as a directory of useful documents, departments and resource organisations.
- Chapter twelve examines your priorities in terms of the scope of local government's responsibilities, the municipality's Integrated Development Plan, as well as performance indicators and targets set for priority issues.
- Chapter thirteen explains how most municipal budgets are organised and where different expenditure items relating to priority issues and problems can be found.
- Chapter fourteen is all about calculations and advocacy. Six calculation tools are outlined to best analyse the budget figures appropriate to your priority. Practical suggestions are given for using the findings to further your cause.

Part V is a dictionary, containing definitions of all the budget and local government terms and concepts, which may be unfamiliar to you. It also contains all the acronyms used within the guide.

II. How to use the guide

Taking the plunge

The guide is written for a range of people and aimed at helping readers engage better with local government budgets. The guide has been written in such a way that each chapter builds on what has been covered before, but also so that those readers who want to dip into specific chapters are able to do so with ease. Use it as a reference manual looking up areas that interest or

concern you. Or use it as a practical handbook, working through each chapter and applying yourself to the various case studies and calculations.

Finding definitions of unfamiliar words

One of the key obstacles to ordinary people's participation in budget work is the assortment of unfamiliar terms and concepts. You've probably already come across some words, which are alien to you! We have tried to overcome this obstacle by using everyday language where possible, while still introducing you to the words you need to understand in your work with local government and budgets. These words are written in bold the first time they appear in the text and are also included in the dictionary found at the end of this guide (part V).

What does this stand for?

The names of organisations or documents given in full are followed by their acronym in brackets the first time they appear in the text. Thereafter acronyms are used. Acronyms are included in the dictionary (part V) for easy reference.

PART 1: THE RELEVANCE OF PARTICIPATION IN LOCAL GOVERNMENT BUDGETS

The aim of part I of the guide is to provide an introduction to the key concepts, structures and role-players which together make up the stuff of local government budgets. It provides basic information on local government, budgets, budget analysis, relevant legislation, integrated development planning and citizen participation in the budget process.

CHAPTER 1: WHY LOOK AT GOVERNMENT BUDGETS?

Chapter one looks at the notion of budgets. By linking budgets with human rights and democracy we show why budgets are an important political tool. The chapter looks at why budget analysis is important and what sort of information you can hope to discover from scrutinising budgets and budget documentation. It goes on to give a very brief overview of the make up of local government and concludes by introducing integrated development planning and its relationship with local government budgets.

1.1 Definition of a government budget

A government budget is a public document that outlines how a government proposes to collect and spend money. The proposals contained in the government's budget reflect its policy priorities and revenue (**fiscal**) targets. In this way, the budget expresses the objectives and aspirations of a government in power. In a democratic society, these objectives and aspirations should reflect those of the majority of the electorate.

“Public budgets are the instruments by which governments raise and allocate the financial resources of the state. They are also the means by which governments provide for basic necessities that relate to human rights. Public budgets are more than a collection of numbers, they are a declaration of a community's or nation's priorities”.

Source: J. Shultz (2002) Promises to Keep: Using public budgets as a tool to advance economic, social and cultural rights. Conference report. Mexico City: Ford Foundation / Fundar.

1.2 Budgets, democracy and transparency

Governments have no money of their own. In the budget, in outlining its plans for raising and spending money, a government is explaining how it intends using money that belongs to the public. In a democratic society, citizens give the government a mandate via their votes and politicians are obliged to translate that mandate into policies and plans that are, in part, reflected in the budget. In order to hold government accountable and make informed electoral choices, citizens need to engage with the budget. Budgets, and citizens' interest in budgets and their implementation, are instrumental in the practice of democracy.

Without access to the relevant public documentation and information, however, it is hardly possible to contribute fruitfully to budget-related debates. This points to the importance of budget transparency, which is provided for in the Constitution of South Africa: “*National, provincial and municipal budgets and budgetary processes must promote transparency, accountability and the effective financial management of the economy, debt and the public sector.*”

Source: The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)

Transparency and accountability have become so much part of our democratic vocabulary, but what do they mean?

Fiscal transparency refers to the public availability of comprehensive, accurate and useful information on a government’s financial activities. Transparency is, in part, an end in itself: taxpayers have the right to know what the government does with their money. Efforts to increase transparency can also help improve accountability and reduce corruption. One international standard for transparency is contained in the IMF Code on Fiscal Transparency. The code is built around the following standards:

- The roles and responsibilities in government should be clear;
- Information on government activities should be provided to the public;
- Budget preparation, execution, and reporting should be undertaken in an open manner; and
- Fiscal information should be subjected to independent assurances of integrity.

Fiscal accountability refers to the responsibility on government to account to parliament for the way public funds are collected, managed and spent

Definitions sourced from: Streak, J. (ed.) (2003). Monitoring Government Budgets to advance child rights. Appendix 2. IDASA, Children’s Budget Unit, Budget Information Service.

1.3 Budgets, human development and human rights

Budgets are also inextricably linked to questions of human development and human rights. In this regard, citizen engagement with the budget requires checking whether “*government is realising human freedom by systematically removing obstacles to the expansion of human capabilities, and whether it is doing so in an equitable way.*”

Cited from: Fölscher, A., 2004, IDASA Round Table on Budgets and Democracy

Furthermore, the South African Constitution recognizes, in addition to civil and political rights, social and economic rights (for example the right to food, housing and work) and commits the country to the progressive realisation of these rights. This 'rights' dimension ensures that the use of public funds for the development of citizens' freedom and capabilities becomes a legally enforceable duty. The local and international normative framework for human rights strengthens the accountability of institutions, particularly government, to address development issues in countries worldwide¹.

1.4 Limited budgets and 'endless' needs

No government in the world has infinite public resources at its disposal. At the same time, there is a boundless array of needs to be met through public expenditure. The immediate fulfilment of human rights for all, particularly social and economic rights, would require resources that most developing countries do not have. The budget thus always incorporates trade-offs between different spending priorities. For example, the decision to provide sanitation in a poor community may have been at the cost of funding a road to another community, or at the cost of levying lower taxes, which could have stimulated economic growth. The budget includes value judgments about which services and whose interests are most important. A government budget is therefore not simply a technical document; it is also an important political instrument.

Based on: Fölscher, A., 2004, IDASA Round Table on Budgets and Democracy

1.5 What can budget analysis tell us? ²

Budget analysis tells us about government performance. A government's budget performance is reflected in its budget **inputs** (resources), **outputs** (services that are delivered) and **outcomes** (the well-being of the population). Analysing a budget therefore involves looking at these three components:

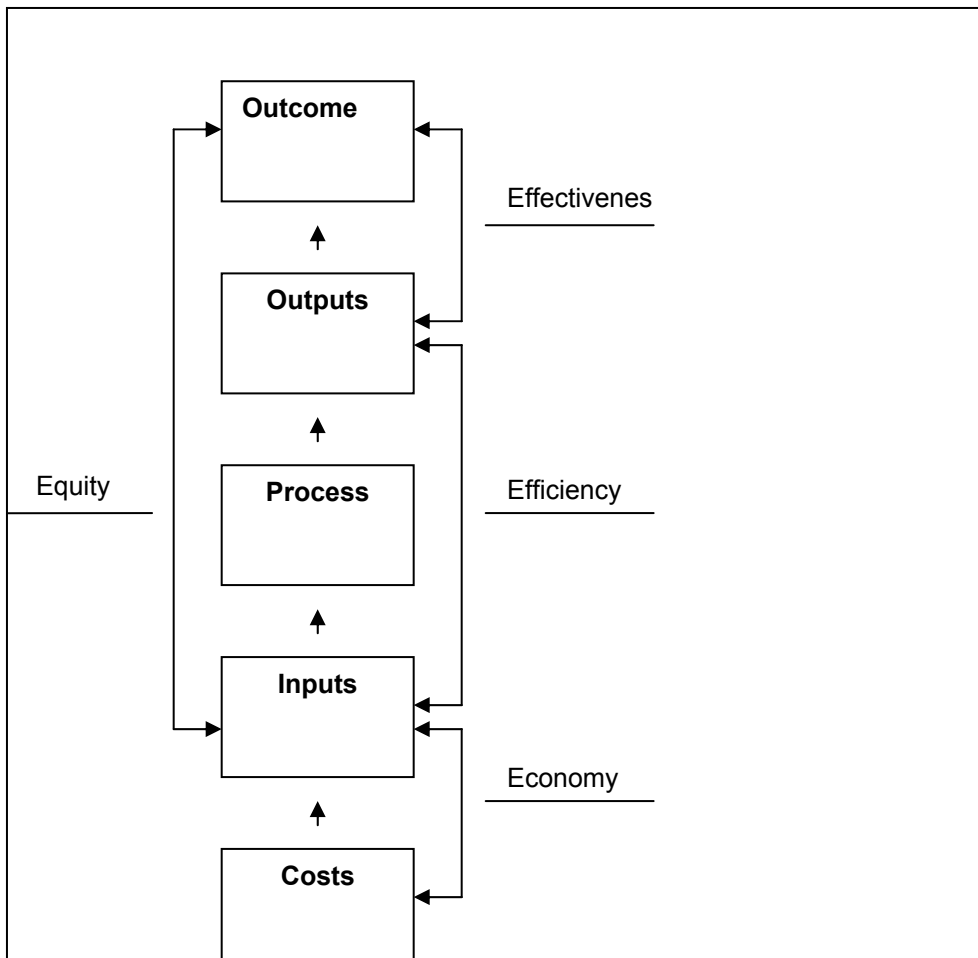
- **Budget inputs** are the resources allocated to produce certain results. Budget inputs may include, for example, money, labour and time.
- **Budget outputs** are the results produced by budget inputs. For example, the output of an education budget may be reflected in the number of pupils receiving schooling.

¹ These issues are developed further by Alta Fölscher in the afore-mentioned article.

² Adapted from Hickey, A. and Van Zyl A. (2002). South African Guide and Dictionary. Budget Information Service, IDASA.

• **Budget outcomes** are the changes in the quality of life brought about by budget outputs. This refers to how lives are changed for the better as a result of the outputs. For example, the outcome of pupils receiving schooling may be reflected in reduced unemployment levels over time.

The relationship between inputs, outputs and outcomes, as well as effectiveness, efficiency, economy and equity – which are explained further down in this section –, is shown diagrammatically below.



Adapted from: 'Outcome-focused Management and Budgeting', JK Kristensen, W Groszyk and B Buehler, in OECD Journal on Budgeting 2002.

The following criteria are useful to consider when looking at the relationship between inputs, outputs and outcomes:

Priority

Priority is the importance attached to a certain issue or programme. We often look at the proportion of the budget that a programme consumes to find out whether an issue is prioritised. This is done in terms of the **percentage share**, a simple formula for calculating what share of the budget is allocated to a programme in percentage terms.

Economy

Economy describes how effectively government manages inputs in relation to costs. In other words, a budget is economical when the best possible inputs are bought with the funds available.

Efficiency

Efficiency describes the manner in which government works with inputs in relation to outputs. A budget is managed efficiently when inputs are used in such a way as to produce as many outputs as possible. Efficiency can also be measured by comparing expenditure with the total costs of services delivered. For example, a budget for the establishment of a high-turnover clinic would be efficient if the clinic is built to accommodate as many doctors, nurses and patients as possible. This also includes the notion of over- and under-spending. For example, if the money that was allocated to produce a specific service has not been spent during the year, the money should have rather been used to deliver other services.

Effectiveness

Effectiveness refers to how government manages outputs in relation to outcomes. A budget is managed effectively when spending brings about the outcomes it set out to achieve. For example, even if the budget for a clinic is economical and efficient, it would only be effective if spending brings about the desired results, such as a healthier population in its catchment area. If it is built too far from transport routes, or does not provide the health services needed in the area, public resources have not been spent effectively.

Equity

Equity concerns the fairness of inputs and outputs in relation to outcomes. Even if government budgeting is effective, efficient and economical – it may not be equitable. The principle of equity is derived from a government's obligation to deliver to those people who need it most, and to manage resources in a way that is fair to all citizens. For example, in budgeting for the establishment of a new clinic, due regard should be given to who is most in need of primary health services. A budget is managed equitably when it helps to correct imbalances in access to services, and provides benefit to those most in need.

1.6 What can't budget analysis tell us?

Contrary to popular belief, fraudulent activities are not obvious from budget and expenditure figures alone! Potential ways to detect possible fraud are to:

- Examine the judgement of the auditors in the Annual Report;
- Compare actual expenditure with the number and quality of realised inputs and outputs: if expenditure is very high but no services have been delivered, this could be an indication of gross inefficiency or fraud.

1.7 Different budgets for different public entities

Generally speaking, government departments in each sphere of government compile their own budget. These different budgets are then combined into a Budget Statement that provides budget information for all national government departments (called the *Estimates of National Expenditure*³), all provincial departments for each province (thus 9 provincial budget statements in South Africa⁴), and 284 municipal budgets⁵.

1.8 What is local government?

Local Government is the closest interface between the people of South Africa and its government. Local government is made up of 284 municipalities: 6 Metropolitan (Category A); 226 Local (Category B) and 52 District Municipalities (Category C). Working co-operatively with the provincial and national spheres of government, the primary purpose of municipalities is to deliver basic services to all communities across the country.

In carrying out their functions, municipalities have to align themselves with the relevant national and provincial legislation, policies and strategic frameworks. The National Government is primarily responsible national legislation and policy development. Besides developing provincial legislation and policies, Provincial Government is also responsible for the bulk of the implementation of the Education, Health and Social Development functions.

1.8.1 What is a municipality?

A municipality is made up of

³ Available from National Treasury, or www.treasury.gov.za

⁴ Available from Provincial Treasuries or www.treasury.gov.za

⁵ The municipal budget is available from each municipality. Contact details for all municipalities are available at: www.dplg.gov.za (click "government sphere", then click "municipal information").

- Municipal Council
 - The Council
 - The Speaker
 - The Executive or Mayoral Council
 - The Mayor
 - Council Committees
 - Ward Committees
- Administration

Name	Role and Responsibilities
Municipal Council	The municipal council is the highest decision making body at local government level. It is made up of the following structures and role-players:
The Council	The council is the legislative arm of the municipal council. Its role is to receive reports and recommendations from the executive and other committees of council and make decisions regarding social and economic development and the improvement and provision of services. Members of the council are known as councillors or local councillors
The Speaker	The speaker is the chairperson of the council and is responsible for the effective functioning of the municipal council.
The Executive Council (or Mayoral Council)	The role of the executive council is to: <ul style="list-style-type: none"> ○ Receive reports from council committees and make recommendations to council, if it cannot dispose of the matter in terms of its delegated powers itself. ○ Recommend to council strategies, programmes and services to address priority needs of the municipality through the IDP, ○ Monitor the management of the municipality's administration and oversee provision of services to communities
The Mayor	The mayor is responsible for the municipality's financial matters. A distinction is made between executive mayors and mayors in a collective system: <ul style="list-style-type: none"> - As chair of the executive committee, the mayor in a collective executive system has powers similar to those of the speaker, though limited to the executive

	<p>committee.</p> <ul style="list-style-type: none"> - The executive mayor also has powers similar to those of the speaker, though only in relation to the mayoral committee. <p>A council can furthermore delegate a considerable number of other powers and functions to the mayor⁶.</p> <p>Source: Community Law Centre, Local Government Bulletin. Available at: http://www.communitylawcentre.org.za/localgov/bulletin2001/2001_4_roles.php#roles.</p>
Council Committees	The council may establish committees required for the effective and efficient performance of its functions. Committee members are drawn from councillors.
Ward Committees	The role of ward committees is to make recommendations on matters affecting its ward to the council. They are the key link between communities and municipal councils and are responsible for making sure people are consulted and kept up-to-date on council decisions, developments, budget plans and programmes. Ward committees are established and chaired by a ward councillor who has been elected in local government elections, and composed of community members who have been elected by the community they serve.
Administration	Administration made up of paid officials whose job it is to implement the decisions and programmes of the municipal council

Source: Idasa Local Government Centre 2004, Manual: "How Local Government Works"

1.8.2 Local government responsibilities in brief

Local government is responsible for a number of important functions, which are critical for the standard and quality of living of the South African population. These include, amongst others, water and sanitation services, electricity provision, fire fighting and disaster management, environmental health services, solid waste removal, road infrastructure, community services, streetlights, community security (policing) services, and local economic development planning.

⁶ Examples of these are provided on the website of the Community Law Centre, available at: http://www.communitylawcentre.org.za/localgov/bulletin2001/2001_4_roles.php#roles

Each municipality plans for delivery of the services for which it is responsible in an integrated way, formulating an Integrated Development Plan (IDP). This plan forms the basis of the municipal budget, which is drawn up and implemented in accordance with the Municipal Finance Management Act (MFMA). Chapter three discusses IDP's and their link with the budget in more detail. Implications of the MFMA for the municipal budget process and actors are described in chapter two.

Chapter Summary

- A government budget is a public document that reflects revenue and expenditure.
- It also reflects government's priorities and is thus an important political tool.
- Budget analysis tells us about government priorities and performance.
- When analysing government budgets, it is important to look at the relationship between budget inputs, outputs and outcomes.
- Budget analysis provides citizens with an insightful and effective tool for holding government accountable.
- Local government is made up of 284 municipalities. The primary purpose of municipalities is to deliver basic services to all communities across the country.
- A municipality is made up of the municipal council and administration.
- A Municipal council comprises the council, speaker, executive council, mayor, council committees and ward councils.
- Administration includes all the paid officials who work at a municipality (implementation).
- Local government budgets reflect the municipalities' Integrated Development Plan, a comprehensive document outlining a development and service delivery plan.

CHAPTER 2: MUNICIPAL FINANCE MANAGEMENT ACT - IMPLICATIONS FOR THE MUNICIPAL BUDGET PROCESS AND ROLE-PLAYERS

Chapter 2 discusses the Municipal Finance Management Act (MFMA), as the most important act in the legal framework, which governs local government's financial management. The municipal budget process is outlined and the responsibilities of key role-players described. In keeping with government's emphasis on transparency and accountability, the chapter ends with a look at the reporting requirements outlined in the MFMA.

2.1 Purpose of the MFMA

The Municipal Finance Management Act (MFMA) was introduced in 2003 to transform financial planning and management, and maximise capacity within local government to achieve better performance in service delivery. The MFMA aims to bring about effective and efficient public expenditure at local government level. This legislation places emphasis on accountability, transparency, and value for money. The MFMA compels municipalities and municipal departments to re-assess their strategic planning, budgeting, financial management, implementation, monitoring and evaluation procedures. The act clarifies lines of responsibility. For example, it empowers the mayor to provide political leadership by taking responsibility for policy and outcomes. It also holds the municipal and other senior managers responsible for implementation and outputs.

Source: National Treasury, 2004, Modernising Financial Governance. Implementing the Municipal Finance Management Act 2003. Updated Edition, Aug. 2004. Available at: <http://www.finance.gov.za/mfma/Introductory%20guide%20Revised.pdf>

A copy of the MFMA is available from the government printers in your area, or from one of the following websites:

http://www.ffc.co.za/about/acts/act56_03.html

<http://www.treasury.gov.za/mfma/>

<http://www.pmg.org.za/bills/040209act56.pdf>

2.2 MFMA as part of the Local Government legal framework

The MFMA was introduced as part of a broader local government reform initiative to improve service delivery and participatory governance in South Africa. Selected relevant Acts that play a role in this reform are:

1. [Local Government: Municipal Property Rates Act, no 6 of 2004](#)
2. Local Government: Municipal Finance Management Act, no. 56 of 2003

3. [Local Government: Municipal Systems Amendment Act, no. 44 of 2003](#)
4. [Disaster Finance Management Act, Act 57 of 2002](#)
5. [Local Government: Municipal Electoral Act, No. 27 of 2000](#)
6. [Local Government: Municipal Systems Act 32 of 2000](#)
7. [Local Government: Municipal Structures Amendment Act, Act 58 of 1999](#)
8. [Public Finance Management Amendment Act, Act 29 of 1999](#)
9. [Public Finance Management Act, Act 1 of 1999](#)
10. [Local Government: Municipal Structures Act, Act 117 of 1998](#)
11. [Local Government: Municipal Demarcation Act, Act 27 of 1998](#)
12. [Organised Local Government Act, Act 52 of 1997](#)
13. [Local Government Transition Act, Act 209 of 1993](#)
14. [Intergovernmental Fiscal Relations Act, No. 97 of 1997](#)

Documents available at: <http://www.dplg.gov.za> or
<http://www.communitylawcentre.org.za/localgov/legislation.php>

2.3 Overview of the MFMA

“The objective of the MFMA is to secure sound and sustainable management of the fiscal and financial affairs of municipalities and municipal entities by establishing norms and standards and other requirements for—

- a) Ensuring transparency, accountability and appropriate lines of responsibility;*
- b) Management of their revenues, expenditures, assets and liabilities and the handling of their financial dealings;*
- c) Budgetary and financial planning processes and the co-ordination of those processes with the processes in other spheres of government;*
- d) Borrowing;*
- e) Handling of financial problems in municipalities;*
- f) Supply chain management; and*
- g) Other financial matters.”*

Source: Municipal Finance Management Act, Section 2

2.4 Steps in the municipal budget process

The MFMA requires the local government budget process to follow six basic steps:

Step	Process
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1. Planning	<ul style="list-style-type: none"> ▪ Schedule key dates ▪ Establish consultation forums ▪ Review previous processes
2. Strategising	<ul style="list-style-type: none"> ▪ Review IDP ▪ Set service delivery and objectives for next three years ▪ Consult on tariffs, indigent, credit control, free basic services, etc. ▪ Consider local, provincial and national issues, previous year's performance and current economic and demographic trends etc.
3. Preparing	<ul style="list-style-type: none"> ▪ Prepare budget, revenue and expenditure projections ▪ Draft budget policies ▪ Consult and consider local, provincial and national priorities
4. Tabling	<ul style="list-style-type: none"> ▪ Table draft budget IDP and budget related policies before council ▪ Consult and consider formal local, provincial and national inputs or responses. <p>A suggested time frame for the process of tabling would look like this:</p> <ul style="list-style-type: none"> ▪ March: Table municipal and entity budgets, resolutions, SDBIP, IDP revisions and budget related policies ▪ April: Call for public submissions, council to have meetings with key stakeholders ▪ April/May: Council hearings and council meeting to consider submissions ▪ Council meeting – mayor to submit amended budget
5. Approving	Council approves budget and related policies
6. Finalising	Publish and approve Service Delivery and Budget Implementation Plan (SDBIP) and annual performance agreements and indicators

Source: National Treasury, MFMA Circular No 10 of 2004

The detailed time frame for the Budget process in relation to activities regarding the present, previous and next financial years as provided by National Treasury looks as follows:

	This Year's Budget	Last year's Budget	2006/07 MTEF (next MTEF)
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July	Monthly reports	Start implementing this year's budget plan	End of year Process		Approve & Announce new budget schedule & set up committees & forums		Consultation on performance & changing needs	
August	Monthly reports		Complete annual financial statements & Annual report and refer to Auditor General		Review Performance & Financial Position	Review External Mechanism	Start planning for next 3 years	
September	Quarter reports		Send consolidated reports to Auditor General		Update policies, priorities & objectives	Determine revenue projections & policies		
October	Monthly Reports	Quarterly Review: Have projects started as planned?			Engage with Sector Departments - Share & Evaluate: Plans, National Policies, MTBPS			Draft initial allocations to functions
November	Monthly reports		Receive Audit Report & plan actions on findings		Consolidation of Budgets & Plans		Executive determines strategic choices for next 3 years	
December	Quarter reports		Table audited Financial Statements, Annual Report & Audit report	Audit Committee public hearings on Audit report	Finalise Tariff Policies			
January	Mid-Year Review	Prepare Adjustments Budget	Approve action on Audit findings				Prepare detailed Budgets and Plans for next 3 years	
February	Monthly reports				Executive adopts Budget & Plans & changes to IDP			
March	Quarter reports		Report action taken on Audit findings & Performance Review		Mayor tables Budget, Resolution, Plans & Changes to IDP at least 90 days before start of Budget Year			
April	Monthly reports	Quarterly Review: Adjustments Budget			Consultation with National & Provincial Treasuries and finalise Sector Plans (Water & Sanitation, Electricity, etc.)		Public hearings on the Budget, Council debate on Budget & Plans	
May	Monthly reports				Council adopts Budget, Resolutions, Capital Implementation Plans, Objectives & changes in IDP			
June	Year-end report		Finalise outstanding Reports, Outcomes of Budget					

Adopted from: National Treasury, LG Budget Process & Financial Management Calendar. Available at: www.treasury.gov.za

Besides the above schedule, National Treasury has also published an example schedule of key deadlines for the municipal budget process in the local election year. It is available at:

[http://www.finance.gov.za/mfma/Schedule%20of%20Key%20Deadlines%20-%20Election%20Year%20\(FINAL\).doc](http://www.finance.gov.za/mfma/Schedule%20of%20Key%20Deadlines%20-%20Election%20Year%20(FINAL).doc)

2.5 Every municipal budget needs to be approved

In order for a municipality to facilitate necessary expenditure it has to have an approved budget. Such expenditure can only be made from the amounts that have been appropriated for the different votes and programmes that have been approved (MFMA Section 15). The budget is approved by the municipal council on an annual basis, before the start of the municipal financial year, which runs from the beginning of July to the end of June. The mayor plays a significant role in this process.

What is a vote?

Section 1 of the MFMA defines a 'vote' as:

- 'a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and*
- b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.*

What is a programme?

A programme is a subdivision of a vote, which mostly comprises a number of projects that together address a defined issue. For example, in a certain municipality the 'Health and Protection Services' vote could include programmes such as 'Disaster Management'; 'Municipal Health'; 'Fire Services'; and 'Primary Health Care'.

2.6 Budget process role-players

The mayor and the municipal manager, who acts as the accounting officer, are the two most important role-players in the budget process.

2.6.1 Role of the mayor in the budget process

2.6.1.1 Co-ordinating the budget process

Section 21 of the MFMA states that the mayor of a municipality "*must co-ordinate the processes for preparing the annual budget and for reviewing the municipality's integrated development plan and budget-related policies to ensure that the tabled budget and any revisions of the integrated development plan and budget-related policies are mutually consistent and credible.*"

2.6.1.2 Tabling a time schedule

The mayor must table a time schedule at least ten months before the start of the budget year (that is, by 31 August of the previous year). The schedule should outline deadlines for:

- Preparation, tabling and approval of the annual budget;
- Annual review of the integrated development plan; and
- Any consultative processes.

The exact dates may differ for each municipality, and can be obtained from the mayor's office.

2.6.1.3 Considering other budgets, policies and consultations

In the preparatory phase of the budget process the mayor has to take into account:

- The municipality's Integrated Development Plan;
- The national budget;
- The relevant provincial budget;
- National government's fiscal and macro-economic policy;
- The annual Division of Revenue Act; and
- Any agreements reached in the Budget Forum.

The mayor is obliged to hold consultations with other relevant district and local municipalities, the provincial and national treasuries, as well as government departments that have responsibility to provide basic services such as water, electricity and sanitation. It is therefore recommended that the municipal budget is not analysed as a stand-alone document.

2.6.1.4 Additional responsibilities

The mayor's responsibilities are further delineated in chapter 7 of the MFMA.

Amongst others, the mayor has to:

- Exercise oversight over the work of the accounting officer and the chief financial officer.
- Within 30 days of the end of each quarter, submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality.
- Co-ordinate the annual revision of the IDP and determine how the IDP should be aligned with the budget.
- Ensure that the annual budget is approved before the start of the budget year.
- Within 28 days of this approval the mayor has to approve the municipality's Service Delivery and Budget Implementation Plan (SDBIP).
- Ensure that annual performance agreements of municipal officials are in line with measurable performance objectives contained in the budget and the SDBIP.

- Ensure that the public is informed within 14 days of the revenue and expenditure projections for each month and the service delivery targets and performance indicators that have been set for each quarter in the budget.
- Take remedial action if the municipality faces financial problems. These include reducing spending if revenue is anticipated to be less than projected. In such cases the mayor must inform the council as well as the relevant provincial member of executive council (MEC) and recommend appropriate interventions in terms of section 139 of the Constitution.

2.6.2 Responsibilities of the municipal manager as accounting officer in the budget process

2.6.2.1 General role and responsibilities

The MFMA spells out the responsibilities of the municipal manager who acts as the accounting officer. Together with the manager's other duties, as accounting officer, the manager is responsible for all aspects of revenue and expenditure management (MFMA Sections 64 and 65).

The accounting officer's role in the budget preparation process is to assist the mayor by providing administrative support, resources and any necessary information. (MFMA Section 68)

2.6.2.2 Budget implementation

It is the responsibility of the accounting officer to implement the budget once it is approved. The duties to be performed by the accounting officer in this capacity include:

- Monitoring revenue and expenditure trends and making the necessary adjustments and reductions to spending;
- Preparing a draft Service Delivery and Budget Implementation Plan (SDBIP) for the budget year;
- Reporting impending shortfalls, overspending and overdrafts in writing to the council, giving full details and reasons for the condition. (MFMA Section 70)

2.6.2.3 Budget reports

The accounting officer has to provide the mayor with monthly budget statements no later than 10 days after the end of each month. A mid-year financial assessment is another important reporting requirement. The municipality's financial state of affairs has to be assessed by looking at monthly statements, the SDBIP's service delivery targets and performance indicators. This assessment should be done in comparison to progress made in the previous year. Based on this assessment,

the accounting officer can make recommendations as to whether an **adjustments budget** is necessary.

2.6.2.4 Making documents available to the public

A novel provision promoting access to information is contained in Section 75 of the MFMA. The accounting officer is obliged to publish a whole range of documents on the municipality's website.

These include:

- The annual and adjustment budgets;
- All budget related policies;
- The annual report;
- All service delivery agreements;
- All public-private partnership agreements;
- Quarterly reports; and
- Performance agreements.

2.7 The MFMA's budget reporting requirements

- The budget should be divided into a **capital budget** and an **operating budget** in accordance with international best practice.
- The budget has to be set out in a prescribed format, with:
 - Realistic projections of revenue raising;
 - Spending plans for the financial year; and
 - Indicative projected revenue and expenditure for the next two financial years.
- The projections of revenue and expenditure must be given for the different programmes.
- The budget has to show what the actual revenue and expenditure was for the previous financial year. (MFMA Section 17)
- The budget should show the salary, allowances and benefits paid to each political office bearer, councillors, the manager, the chief financial office bearer and each senior manager.
- Some of the documentation that must accompany the budget when it is tabled before the municipal council include:
 - Draft resolutions to approve the budget;
 - Municipal taxes and tariffs for the financial year;

- Measurable performance objectives for revenue raising;
- Cash flow projections for each month; and
- Proposed amendments to the municipality's IDP.

2.8 Transparency and accountability

2.8.1 Culture of transparency and accountability

A culture of transparency and accountability is foundational to the budget process and has to be built into the mechanisms of financial management. The reporting mechanisms required by the MFMA consist of the following **in-year** reporting:

- Monthly and quarterly financial statements; and
- Mid-year budget and performance assessment.

The information provided in these reports includes financial and non-financial information covering issues such as:

- Service delivery backlogs;
- The number of electricity and water connections; and
- Explanations of council policy on indigents and free basic services

See: Modernising Financial Governance, National Treasury Guide to implementing the MFMA, August 2004, Chapter 10. Available at: http://www.finance.gov.za/mfma/Introductory%20guide%20Revised_.pdf

2.8.2 Annual report and public meeting

The municipality must prepare an annual report that contains:

- Audited financial statements and other information such as allocations received and made;
- Particulars of employment costs of councillors and officials;
- Details of bank accounts, investments and contingent liabilities;
- Particulars of non-compliance with the Act and details of any material losses from unauthorised expenditure.

The municipal council is obliged to consider the annual report at a meeting open to the public.

However, the implementation dates for municipal compliance with these reporting mechanisms have been phased in, based on capacity considerations. Thus, for high, medium and low capacity municipalities the implementation dates are generally 2005/06, 2006/07, and 2007/08 respectively.

Source: Treasury Guidelines based on Gazette No. 26510 Notice No. 772 (25 June 2004) and Gazette No. 26511 Notice No. 773 (1 July 2004)

2.9 Non-compliance

Non-compliance with the MFMA carries consequences. For example, senior managers' performance contracts contain key implementation reforms, which will have to be achieved. If these are not met, it could result in withholding of performance rewards. Chapter 15 of the MFMA deals with financial misconduct, disciplinary proceedings, criminal proceedings, offences and penalties.

Depending on the severity of the non-compliance, funds to the municipality could be withheld. Also, individuals guilty of committing an offence will have to be dealt with by the judicial system.

Persistent non-compliance or failure to comply could lead to provincial and national intervention. Consequential action by provincial and national government, through discretionary and mandatory intervention, may have negative results, such as failure to provide services and the occurrence of serious financial problems. *Source: <http://www.treasury.gov.za/mfma/FAQ1.pdf>*

2.10 MFMA implementation dates

The bulk of the MFMA came into operation in July 2004 based on the capacity of municipalities, with certain aspects to be phased in at a later stage. A list of all municipalities classified by capacity is provided in Government Gazette 26511, available from: www.finance.gov.za/mfma/1-26511%201-7.pdf.

A list with implementation dates for each aspect of the MFMA by capacity category is also available, from: <http://www.treasury.gov.za/mfma/MFMA%20Implementation%20Dates.pdf>

2.11 More information on the MFMA

A useful document by National Treasury is the Frequently Asked Questions document on the MFMA, available at: <http://www.treasury.gov.za/mfma/FAQ1.pdf>. It provides clear answers to many questions that people may have about the MFMA.

General information for municipalities on how to facilitate MFMA implementation is available from national treasury: <http://www.treasury.gov.za/mfma/>

Chapter summary

- The MFMA is part of a range of legislation introduced to improve local government functioning.
- The MFMA aims to transform financial planning, management and expenditure at local government level.
- The MFMA requires local government to follow six basic steps in their budget process. These steps include; planning, strategising, preparing, tabling, approving and finalising.
- Every municipal budget has to be approved by the municipal council before expenditure is permitted.
- The mayor and the municipal manager are the two primary role-players in the budget process.
- The mayor is amongst other things, responsible for co-ordinating the budget process, tabling a time schedule for the process, considering other relevant documents and consulting with stakeholders.
- The municipal manager, who acts as the accounting officer is, amongst other things, responsible for all aspects of revenue and expenditure management. She or he is responsible for implementation of the approved budget, providing monthly budget statements and conducting a mid-year assessment. The accounting officer is also responsible for seeing that a range of budget documents is publicly available.
- The MFMA has stringent reporting requirements, which aim to foster accountability and transparency. Requirements include in-year and year-end reports accompanied by supporting documentation.
- Non-compliance is considered seriously and a range of penalties is outlined in the act.
- Municipal compliance with MFMA reporting requirements has been phasing in since 2004, depending on each municipality's capacity.

CHAPTER 3: COMMUNITY AND CITIZEN PARTICIPATION IN THE MUNICIPAL INTEGRATED DEVELOPMENT PLAN AND BUDGET PROCESS

Chapter three explores the Integrated Development Plan (IDP) and its link with local government budgets in more detail. The chapter examines citizen participation in the budget process and provides an overview of the legal obligations on government to facilitate such participation. Practical ideas for citizens and community groups, who want to participate in the municipal budget process, are provided in chapter fourteen: Calculate and Advocate!

3.1 Local government as eyes and ears of the South African government

Municipalities are the closest interface between the community and all three spheres of government. They are best placed to consult communities on matters pertaining also to national and provincial functions, such as law enforcement, schools, clinics and housing. In a sense they are the eyes and ears of national and provincial governments. It is therefore important that municipalities and municipal councillors act as channels of communication between local communities and the relevant national and provincial government departments, as well as providing information for the relevant departments' budget process.

3.2 Link between the Integrated Development Plan and municipal budget

3.2.1 What is an Integrated Development Plan?

All municipalities have to undertake an integrated development planning process and draw up an Integrated Development Plan (IDP). The integrated development planning process is the process through which municipalities prepare a long-term strategic plan, for example, for a five year period. Through the IDP, the municipality identifies its priority issues and problems, thereby determining the municipality's vision, objectives and strategies. The municipality is then able to initiate projects aimed at addressing these issues.

Source: IDP Info Sheet. Available at: <http://www.mopani.gov.za/site/faq/faq.htm>

3.2.2 IDP – Phases and Content

The IDP process consists of a number of sequential phases:

- 1) Analysis phase: An assessment of the existing level of development, which includes identification of communities with no access to basic services.
- 2) Development of strategies phase:
 - The municipality's vision
 - The council's development priorities and objectives
 - The council's development strategy
- 3) Projects phase:
 - Capital projects located as per the **Spatial Development Framework** and consolidated into a **Municipal Investment Programme**;
 - Operational projects (based on operational implications of capital projects); and
 - Operational projects that deal with the municipality's internal transformation needs, such as training, information technology (IT), development of management systems, and so on.
- 4) Integration phase:
 - A spatial development framework;
 - Disaster management plan;
 - Integrated financial plan (capital and operational budgets);
 - Other integrated programmes; and
 - Key performance indicators and performance targets.
- 5) Approval phase

Source: IDP Info Sheet. Available at: <http://www.mopani.gov.za/site/faq/faq.htm>

3.2.3 IDP requirements

The IDP should:

- Take into account proposals for the development of the municipality;
- Be compatible with national and provincial development plans and planning requirements;
- Link, integrate and co-ordinate these plans;
- Align the resources and capacity of the municipality with the implementation plan; and
- Form the policy framework and general basis on which annual budgets must be based.

Source: IDP Info Sheet. <http://www.mopani.gov.za/site/faq/faq.htm>

3.2.4 IDP and co-ordination with national and provincial government departments

The IDP is a co-ordinating tool that includes the needs of the community with respect to local services provided by all three spheres of government. It follows that the IDP of a municipality should differentiate between two components – one related to municipal functions and responsibilities and the other relating to national and provincial responsibilities. The budget of the municipality can only fund the first component of the IDP related to municipal functions and services. The second component of the IDP requires the municipal manager to co-ordinate municipal planning with national and provincial departments advocating on behalf of the local community.

Source: National Treasury, Circular No 10, Budget Process 2005/06.

Available at: www.treasury.gov.za/mfma/ - 51k - 1 Feb 2006

3.3 Citizen participation in local government processes is crucial

Local government is morally and legally obliged to consult and represent citizens' needs and interests. Citizens are entrusted to give life to democracy by making their voices heard and by participating in appropriate government processes. The quality of service planning and delivery is dependent on these principles, supported by competent local governance. The IDP and budget processes are two key opportunities for co-operation between state and civil society, as both share a concern on when, how and why public money is spent.

3.3.1 Participation in the IDP and budget processes

The IDP and the municipal budget are linked, to ensure that implementation of projects and hence development, is directed by the IDP. This makes it imperative for citizens and community organisations to participate in the IDP process as well as the municipal budget process.

The development priorities for a local government area need to be established with full participation of the people who live in the area and any other stakeholders. A well-planned and commonly agreed upon public participation strategy will contribute significantly to the success of the IDP process. It will help ensure that all the stakeholders in the area accept full ownership of, and are committed to, the process.

3.3.2 Participation as a legal requirement

In addition to the MFMA various other Acts, Bills and provincial regulations stipulate requirements with regard to public participation and consultation in support of the various local planning processes, for example:

- The Local Government Transition Act states that local government bodies must report to and receive comments from their communities annually regarding the objectives set in the IDPs.
- Section 27 of the Development Facilitation Act (DFA) requires that regulations must deal with the “manner in which members of the public and interested bodies shall be consulted in the setting of Land Development Objectives” (DFA section 27(4)(a)).
- A range of other Acts and Bills also stipulate public participation requirements and will create the context for the development of any public participation strategy.

Source: <http://www.local.gov.za/DCD/idpmanual/idp05c.html>

3.4 MFMA Requirements regarding consultation of communities in the budget process

In carrying out its responsibility to monitor and assist municipalities as required by the MFMA, the national treasury has created a website dealing with the MFMA and puts out advisory circulars on an on-going basis. There are two external consultation processes envisaged in the MFMA and Municipal Systems Act.

3.4.1 The first external consultation process (October)

The first external consultation process begins around October. It is informal and open-ended, and includes:

1. Public meetings with residents and small businesses in local communities – to identify and prioritise local needs (such as housing, water, electricity, recreation facilities, schools, clinics, streets and street lighting, refuse removal, social services and related issues, crime and functioning of local police stations). The council should consider the use of ward committees to gain an understanding of the issues in each ward and obtain the views of the community.
2. Meetings with key stakeholders (including residents associations, NGOs, business organisations) – to identify community and business needs and concerns, such as the level of municipal tariffs and charges; and

3. Consultations between the municipality and other municipalities, provincial and national departments and entities. This first phase of informal or open-ended consultations ends when the mayor tables the budget and revisions to the IDP around the end of March.

3.4.2 The second external consultation process (after tabling of the draft annual budget)

The second external consultation process is more formal and takes place after the tabling of the draft annual budget, when the council convenes hearings on the draft budget and revisions to the IDP.

The municipality must invite the public and stakeholder organisations to submit comments and submissions in response to the draft budget and revised IDP. Since specific proposals are contained in the draft budget and revised IDP, the public comments and responses tend to be more directed towards these proposals.

3.5 Citizens can propose amendments to the municipal budget

The MFMA caters for the possibility of citizens influencing municipal budgets through the consultative process of participation described above. Section 23 specifically stipulates that immediately after the draft annual budget is tabled in a municipal council, the municipality's accounting officer must (in accordance with Chapter 4 of the Municipal Systems Act) make public the annual budget and related documents, and invite the local community to submit representations in connection with the budget. This enables the community to come forward with specific recommendations relating to revenue and expenditure aspects of the budgets, developmental priorities identified in the IDP and their alignment with programme allocations in the budget. The municipal council must consider any views of the local community and respond to the submissions via the mayor and if necessary, revise the budget and table amendments for consideration by the council.

These provisions in the MFMA offer an important window of opportunity to citizens in a local municipality to effect any desirable changes they wish to see implemented via the budget. If their specific recommendations are not adopted, the mayor should explain the council's decision to the public.

3.6 Public participation in budget matters via ward committees

As stated by a paralegal advice centre, *“The ward councillor is the direct link between the local council and the public. It is his or her responsibility to make sure that people are consulted and kept informed about council decisions, development and budget plans and any council programmes that will affect them. Ward committees can play an important role in creating a democratic culture of local participation and accountability.*

Approving the budget is one of the most important functions of the ward councillor. The ward councillor should not approve the budget until there has been proper consultation with the ward committee and other stakeholders. So, ward committees play an important role in the process and they should look carefully at all the parts of the budget that will affect the people in their area. All members of the community have the right to observe the special council meeting when the budget is debated and voted on.”

Source: Paralegal Advice <http://www.paralegaladvice.org.za/docs/chap06a/06.html>

3.7 Promoting participation at local government level

An important element in the process of increasing and improving public participation is the development of capacity and empowerment of stakeholders in the municipality. Municipalities should ensure that certain groups of stakeholders are not excluded from the process through widespread notification of public hearing and consultation dates, preferably via more than one medium (e.g. newspaper, radio, notice boards, etc.). The choice of venue (location, accessibility) is important as well.

Source: Community Law Centre, Local Government Project. Available at: <http://www.communitylawcentre.org.za>

Providing budget process and content information in itself, however, might not be sufficient to ensure fruitful participation. The information might not reach everyone, and not all people may equally be able to understand the information, due to language barriers or limited ability to read and write. Furthermore, the difference between ‘informing’ and ‘consulting’ must be taken into account. Consulting refers to an active input from community members, which is considered and responded to. This requires that the municipality makes budget information more easily and widely accessible, and understandable to its citizens. According to the Municipal Systems Act (Section 4), the municipality must foster participation through capacity development in the community, as well as of staff and councillors. The municipality should also budget for activities to ensure participation.

More information on improving public participation can be found at:

<http://www.local.gov.za/DCD/idpmanual/idp05c.html>.

3.7.1 Characteristics of an effective public participation process

An effective public participation process is facilitated by:

- Representative attendance at workshops and public meetings;
- The filtering of information down to the general public in the street;
- Few incidents of conflict during meetings and workshops;
- Continuous progress in the planning process;
- A large measure of consensus between stakeholders and role-players;
- Clear mandates for participants;
- Clear, accepted terms of reference for all participants;
- Clear and agreed-to codes of conduct for all participative sessions.

Source: <http://www.local.gov.za/DCD/idpmanual/idp05c.html>

3.7.2 Stakeholder categories

The public participation process needs to represent the following categories of stakeholders:

- Government
- Business
- Labour
- Community-based organizations
- Service providers, development agencies and utility companies
- Public interest groups
- Non-governmental organizations.

Source: <http://www.local.gov.za/DCD/idpmanual/idp05c.html>

Chapter summary

- Municipalities are the closest link between citizens and government.

- An Integrated Development Plan is a single, strategic plan that guides and informs all decisions with regard to the management and development of a municipality.
- The IDP process consists of a number of sequential phases including; analysis phase, development of strategies phase, projects phase, integration phase and approval phase
- A municipal budget reflects the IDP by providing corresponding financial information.
- A municipal budget can only fund the first component of the IDP. This is the component which relates to municipal functions and responsibilities.
- The IDP and municipal budget processes provide opportunity for citizen participation. There is a moral and legal obligation on government to facilitate civil participation.
- The obligation of consultation does not only rest on the state. Citizens of democratic countries are obligated to play a role in the governance of their country.
- Civil participation in local government enhances accountability and the quality of development and service planning and delivery.

PART II: LOCAL GOVERNMENT RESPONSIBILITIES

Local government's responsibilities and its relationship to national and provincial government are defined by the South African Constitution. This division of power and functions establishes for which services a municipality is responsible. It is important to know which sphere of government, and which department you need to target when proposing improvements in the planning, budgeting and delivery of a specific service. However, as municipalities are the eyes and ears of government, it is an important point of contact between state and citizens regarding any government service.

Part II of the guide deals with local government responsibilities, power and functions¹. Chapter four provides an introductory overview, while chapter five provides a more detailed explanation.

¹ The chapters in this part have primarily been based on Occasional Paper: "Local Government Powers and Functions" (Revised Version)" February 2004. Paper commissioned by IDASA: Budget Information service and prepared by Palmer Development Group. Updates based on National Treasury's Budget Review 2005.

CHAPTER 4: LOCAL GOVERNMENT POWERS AND FUNCTIONS

Chapter four provides an overview of how powers and functions are delegated between tiers of government, for which services municipalities are responsible and which functions remain the responsibility of national or provincial government. The chapter examines the Constitution’s provision for two additional tiers at local government level and shows how responsibilities are divided between metropolitan, district and local municipalities.

4.1 Definition of powers and functions

The functions of local government and the relationships between the local government sphere and the national or provincial spheres of government, are defined in the Constitution. Specific functions, and the way responsibilities for these functions are allocated to spheres, are dealt with in schedules 4 and 5 of the Constitution. The schedules only deal with the functions that are shared between spheres. Those functions, which are not listed, are referred to as **plenary functions** and are the sole responsibility of national government.

The table below provides a list of local government functions in Schedules 4B and 5B of the Constitution.

Local Government Functions	Service to individual households (plot package)	Service to broader public	Service to business	Regulation of consumers & business
Schedule 4 B				
Air pollution				**
Building regulations				**
Child care facilities				**
Electricity and gas reticulation	**		**	
Fire fighting services		**	**	
Local tourism			**	
Municipal airports		**	**	
Municipal planning				**
Municipal health services		**		**
Municipal public transport		**		
Municipal public works (internal)				
Pontoons, ferries, jetties, etc		**	**	
Storm water management	**		**	

Local Government Functions	Service to individual households (plot package)	Service to broader public	Service to business	Regulation of consumers & business
Trading regulations				**
Water and sanitation services	**		**	
Schedule 5 B				
Beaches and amusement facilities		**		**
Billboards and display advertisements				**
Cemeteries, funeral parlours, crematoria		**		**
Cleansing		**		
Control of public nuisances				**
Control of undertakings that sell liquor				**
Facilities for animals				**
Fencing and fences				**
Licensing of dogs				**
Licensing & control of food undertakings				**
Local amenities		**		
Local sports facilities		**		
Markets			**	
Municipal abattoirs			**	
Municipal parks and recreation		**		
Municipal roads	**		**	
Noise pollution				**
Pounds		**		
Public places		**		
Refuse removal; solid waste disposal	**		**	
Street trading				**
Street lighting	**			
Traffic and parking				**

4.3 Allocation of powers and functions

The allocation of powers and functions to local government is covered by sections 9 and 10 of the Municipal Systems Act. Allocations occur through **assignment** or **delegation**. Assignment entails the transfer of authority, while delegation entails the transfer of provider responsibility. Assignments can be “general assignments,” where the function is transferred to local governments across the whole country, or “specific assignments” where only specific municipalities receive the function.

4.4 Entrenched responsibilities and regulatory relationships

There are certain entrenched responsibilities in the national and provincial spheres that are retained despite the allocation of functions through assignments and delegations. These include the policy making, legislation, and the regulation and allocation of funds.

4.5 Local government categories

The Constitution not only recognises three spheres of government but also creates three categories of local government, which are:

- Metropolitan municipalities (Category A): single autonomous local authorities.
- Local municipalities (Category B): local municipalities which share responsibilities with category C district municipalities.
- District municipalities (Category C): district municipalities which share responsibilities with several local municipalities within their area of jurisdiction.

4.6 Two-tier local government

Non-metro local government consumers are served by two local authorities. These arrangements have been motivated on the basis of three assumptions:

- Certain services are better provided at larger scale due to **scale economies**; these would be assigned to district municipalities.
- Improved co-ordination of planning can be achieved at district scale.
- Opportunities for re-distribution exist at the district scale.

4.7 Dividing responsibilities between district and local municipalities

- Districts have the municipal health function (now restricted to environmental health).
- Districts have the water supply and sanitation function for areas where the capacity of local government is relatively low.
- The electricity function remains as it was before 2000, which implies that in the formally defined transitional local council areas (mainly urban areas), the function is assigned to local municipalities. Therefore districts have little to do with electricity at present, contrary to the provisions of the Municipal Structures Act.
- Districts have certain responsibilities for municipal roads (district roads), although there is still considerable uncertainty regarding road definitions.

4.8 Developmental local government

Development facilitation concerns the creation of favourable conditions for development to flourish, and includes planning, land administration, local economy and environmental management. The objectives set out in the Constitution for local governments are as follows:

- Provide democratic and accountable government;
- Ensure the provision of sustainable services to local communities;
- Promote social and economic development;
- Provide a safe and healthy environment;
- Encourage involvement of community organizations in local governance.

The White Paper on Developmental Local Government lists three key outcomes:

- Provision of basic household infrastructure and services;
- Creation of liveable, integrated cities, towns and rural areas;
- Promotion of local economic development.

Chapter summary

- The division of powers and functions between spheres of government establishes for which services a municipality is responsible.
- The functions of local government and the relationship between local, provincial and national government are defined in the constitution.
- There are certain responsibilities, which are entrenched at provincial and national government level and cannot be assigned or delegated to other spheres of government.
- Local government itself is made up of three categories. These include metropolitan municipalities, district municipalities and local municipalities.
- Apart from the responsibility for the provision of particular services, local government is also mandated to create favourable conditions for development to flourish.

CHAPTER 5: DETAILED EXPLANATION OF LOCAL GOVERNMENT FUNCTIONS

Chapter five provides a detailed explanation of local government functions and aims to ensure that analysis and advocacy are directed at the relevant sphere of government. It is advantageous to have a full understanding of the precise functions for which municipalities are responsible, and the limitations to their responsibilities, when engaging in local government budget analysis.

For a full overview of the division of responsibilities between the local, national and provincial spheres of government, please refer to schedule 4 and 5 of the Constitution.

5.1 The two wings of local government responsibilities

There are two wings to local government's responsibilities. The first is concerned with macro level functions such as the planning and promotion of integrated development planning, land, economic and environmental development. The second wing is concerned with the provision of specific services, such as health, housing, water and electricity.

5.1.1 Planning and promotion of integrated development

5.1.1.1 Planning and promotion of integrated development planning

The Municipal Systems Act deals with integrated development planning, which describes a single strategic plan that guides and informs all decisions with regard to management and development of the municipality. The Integrated Development Plan (IDP) is central to the planning process, around which the full range of municipal functions are co-ordinated and integrated with provincial and private sector initiatives. Although much effort has been directed at entrenching IDPs in local government, in that each municipality is now maintaining such a plan, the quality of these plans is variable and they are not always financially or operationally viable. In addition, new legislation requires sector development plans for water services, transport and waste management, which must also link into the IDP.

5.1.1.2 Planning and promotion of land development

Constitutionally, land administration and reform is not a local government function but traditionally, municipal planning does include spatial planning and land use. It seems that all three spheres of government, as well as traditional authorities, have specific roles and responsibilities with regard to land administration. The White Paper on Spatial Planning and Land Use

Management clarifies that national legislation and the Minister of Land Affairs will prescribe planning requirements with which local government must comply. It further states that responsibility is best exercised on a local scale with the ultimate goal being a legislative framework which allows local government to formulate policies and plans for land use and development that will resolve spatial, economic, social and environmental issues. The Municipal Systems Act requires that the IDP incorporates a spatial development framework and guidelines for a land management system. This will provide the means for making decisions regarding land development, development applications, land-use and land-use change by the municipality for land in its jurisdiction.

5.1.1.3 Planning and promotion of economic development

The mandate to promote Local Economic Development (LED) is covered in Section 153 of the Constitution where it states that:

“A municipality must structure and manage its administration, and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community.”

The White Paper on Local Government obligates local government to pursue this development through its core functions and the IDP. Its role is to provide an enabling environment, rather than being responsible for economic growth and job creation. While it is theoretically possible for municipalities to play a major role in economic development, there are serious capacity and funding constraints.

5.1.1.4 Planning and promotion of environmental development

Although schedule 4A of the Constitution lists the environment as a national and provincial function, a number of functions in part 4B and 5B may be considered environmental in nature. These include municipal planning, regulation of air and noise pollution, and various services such as storm water management, water and sanitation, refuse and solid waste disposal, beaches, parks and other recreational facilities. Despite most municipalities having limited environmental management capacity (e.g. only a few have dedicated staff or budgets), the National Environmental Management Act requires that they incorporate measures prescribed in the provincial integrated environmental plans and produce an integrated waste management plan.

5.1.2 Service delivery

5.1.2.1 Health services

Municipal Health was initially introduced in schedule 4B of the Constitution, and this has subsequently been redefined as Environmental Health, which means that Primary Health Care (PHC) is now the sole responsibility of the provincial government. All PHC authorisations given to local municipalities, have been withdrawn. However, municipalities are compelled to continue existing PHC under a new service agreement with provincial government. There are concerns over the inequity of the provision of PHC due to a lack of a single integrated health service. There are also practical difficulties with integration and serious financial implications with regard to subsidies.

5.1.2.2 Housing services

Many of the larger municipalities do take on aspects of this function, and have recently applied for accreditation to operate housing programmes, in accordance with the provision in the Housing Act. These activities include the identification of land and beneficiaries for low-cost housing, developing housing projects, internal infrastructure and lastly, owning and renting houses. The role of municipalities has increased while that of the provinces has become regulatory and chiefly focused on resource allocation. Consequently, co-ordination between the spheres and between the various local municipality departments such as planning, engineering and community services is critical.

5.1.2.3 Water services

Historically, the water services sector has had a well-developed legislative and institutional framework, which focused primarily on technical aspects. Recently this orientation has been shifted to a more developmental approach, with emphasis on decentralising delivery and operational responsibilities to local government, with national regulation. Further attention has been given to providing a free basic water and sanitation service to the poor, while still maintaining financial viability for service providers through grants and a sound tariff policy.

5.1.2.4 Electricity services

The electricity sector has been caught in a great deal of uncertainty during the restructuring of the electricity distribution industry and the establishment of its six Regional Electricity Distributors (REDs). The main issue is how the REDs will relate to local municipalities in respect of authority, shareholding of RED assets, levies for loss in surplus revenue, subsidies and billing systems. Currently local municipalities are the authority for the electricity function, which means they have the power to appoint and negotiate with the service provider (RED). The new set up will mean a

loss of revenue and possibly assets for municipalities, though National Treasury and the Financial and Fiscal Commission, in consultation with key stakeholders will assess whether any additional steps need to be taken to protect municipalities from negative financial impact. The stakeholders in this consultation process will include the South African Local Government Association (SALGA), metro municipalities, Department of Provincial and Local Government (DPLG), Department Minerals and Energy (DME), Electricity Distribution Industry Holdings (EDI Holdings), and Eskom.

Source: National Treasury, Budget Review 2005, Annexure E. p. 272.

Info box: Regional Electricity Distributors (RED's)

When RED's are established, Eskom and municipal providers operating in an electricity distribution region will transfer their asset and liabilities to the RED responsible for the distribution of the electricity in the region. Such a pooling of assets and supply areas allows scale economies to emerge, which would lead to more efficient distribution than the current system of multiple providers, often operating in non-viable areas. In theory the cost of distribution would drop, and the scope for cross-subsidisation increase, making more areas viable for distribution. Each region would have its own tariff structure, as opposed to a number of disparate structures that presently exist across a region. This will allow for easier and more rational decision making on the part of electricity users.

Source: Whelan, P. (2004). A review of selected local government revenue reforms. IDASA, Budget Information Service.

5.1.2.5 Roads and transport services

Local municipalities are responsible for the provision and maintenance of local streets as stipulated in schedule 5B of the Constitution. In addition, municipalities have undertaken provincial road repairs as an agent funded by the provincial government. The establishment of new and district municipalities has necessitated a road classification process to clarify jurisdictional responsibility, which is likely to increase the burden of maintenance on local municipalities. The newly introduced Municipal Infrastructure Grant (MIG) is designed to improve the national shortfall in road funding, but increased road responsibility may adversely affect the financial sustainability of municipalities who will have to depreciate the asset and in doing so, increase their expenditure.

Municipal public transport is a schedule 4B function but there is still contradictory legislation relating to the identity of the authority, which requires urgent attention. The transport plan is a key component of the IDP for the municipality, but this process is hampered by a lack of capacity and

funding. Most IDPs have limited integration between land use and transport planning, and little co-ordination between spheres of government, operators and authorities takes place.

5.1.2.6 Solid Waste Services

The local municipalities are responsible for cleansing, refuse removal, dumps and solid waste disposal. Although not specified, this function does entail waste minimization and recycling. In this arena there is a substantial role for provision of services by the private sector and district municipality in terms of landfill management.

5.1.2.7 Community services

The community services provided by local municipalities, often referred to as amenities, take a small part of the budget but are of great value to the public through improving social conditions and the well-being of the community. These services include community halls, sport and recreational facilities, bathhouses and toilets, libraries, arts and culture, resorts, beaches and pools, child care, old age homes, cemeteries and crematoria.

The provision of these services has a positive impact on poverty reduction, employment creation, quality of life, civil society, social problems (such as crime and drug abuse), education and training, recreation and leisure. The main concern in this sector is over the provision of library services, which is currently a provincial function that could be better managed by local municipalities through the assignment of function and funds.

5.1.2.8 Emergency services

Emergency services are the responsibility of national and provincial government where ambulance and disaster management are concerned. Nevertheless, the preparation of disaster recovery plans has been assigned to local government, which means that municipalities are also required to co-ordinate, align and regularly review these plans with other organs of state. Fire fighting remains a municipal function, which has led to its fragmentation, specifically in regard to district municipalities.

5.1.2.9 Security services

The constitution states that:

“The national police service must be structured to function in national, provincial and where appropriate, local spheres of government.”

Self-funded municipal police services are allowed by the South African Police Service Amendment Act. The functions of municipal police services are road traffic policing, policing of

municipal by-laws and the prevention of crime. Not many municipalities provide such a service. Local policing is extremely costly and has a variable track record. It can be argued that focusing on developing and maintaining community infrastructure and facilities could be a more effective manner in which to prevent crime than policing.

5.1.2.10 Public works

Municipal public works is listed as a function in schedule 4B, but can in fact be regarded as an internal support service geared towards construction and maintenance of public infrastructure and facilities. An expanded view of public works is associated with the government's Growth and Development Strategy, which advocates the use of public expenditure to increase employment through the use of labour-intensive projects.

Chapter summary

- Understanding the detailed functions and limitation of local government helps engage meaningfully in local government budget analysis.
- Local government has two primary wings of responsibility. The first is concerned with macro level functions such as the planning and promotion of integrated development planning, land, economic and environmental development. The second wing is concerned with the provision of specific services, such as water, sanitation, refuse removal, environmental health and electricity services.

PART III: LOCAL GOVERNMENT REVENUE

Part III of the guide focuses on the crucial aspect of income, also referred to as revenue. Revenue is essential as it determines how much money is available for spending. Without revenue, there can be no budget. This section first briefly explains how South Africa raises its income, referred to as revenue mechanisms, and then provides an overview of the sources or streams of revenue for local government. It proceeds with more detailed chapters explaining how municipalities collect their own revenue, and looks at the most significant transfers to local government, known as the equitable share and conditional grants.

CHAPTER 6: CO-OPERATIVE GOVERNANCE AND REVENUE MECHANISMS

Chapter six looks at the notion of co-operative governance, where financial resources are shared among the levels of government, and at the various sources of revenue at its disposal. It gives a quick overview of the role-players involved, and looks briefly at the division of revenue and its implications.

6.1 Looking at revenue

Revenue refers to the income of government. Revenue is critical as it determines to a large extent how much money will be available for spending. Without income, there will be no budget, and thus no spending. Revenue for government spending is generally raised from taxes, levies, service fees, and licenses. Municipalities differ in the extent to which they can raise sufficient funding within the municipality for the services for which they are responsible. Therefore, municipalities receive a smaller or larger part of their funding from revenue raised at national level, known as the National Revenue Fund. Furthermore, the ways in which revenue is raised have implications for equity and economic stimulation.

6.2 Co-operative governance and division of revenue

6.2.1 Nationally-collected revenue

The South African budget is structured to reflect the principle of co-operative governance, where resources are shared among the three tiers of government. As most of the typical economic bases, which are taxed to raise revenue to finance governments, are geographically unevenly distributed across South Africa, and are complicated and costly to collect, the bulk of government revenue is collected by national government. National collection allows government to redistribute public resources across South Africa and to capture scale economies in the collection of revenue. Nationally-collected revenue is then divided amongst the different spheres to contribute to filling the **fiscal gap** that arises because of the difference between expenditure requirement associated with the responsibilities of the sphere and what revenue the sphere is able to raise on its own.

6.2.2 Differences in revenue collection between spheres of government

The largest portion of government's income is derived from taxes. National government revenue includes income tax, company tax and value-added tax (VAT). Provincial governments levy minimal taxes and fees. They receive nearly all of their revenue from national government, in the

form of transfers. On the other hand, municipalities on average raise nearly 85% and more of their revenue themselves, largely through property rates, utility fees and levies. There are, however, large differences between municipalities with regard to their dependence on alternative revenue sources, with some municipalities receiving up to 92 % of their income from other sources.

6.3 Role-players involved in the division of national revenue

There are three primary role-players in the division of national revenue: the Budget Council, the Local Government Budget Forum and the Financial and Fiscal Commission.

6.3.1 The Budget Council

The Budget Council is a body in which the national government and the provincial governments consult on:

- Any fiscal, budgetary or financial matter affecting the provincial sphere of government;
- Any proposed legislation or policy which has a financial implication for the provinces, or for any specific province or provinces;
- Any matter concerning the financial management, or the monitoring of the finances, of the provinces, or of any specific province or provinces; or
- Any other matter, which the Minister has referred to the Council.

The Budget Council consists of:

- The Minister of Finance; and
- The MEC for finance of each province.

The Minister of Finance is the Chairperson of the Budget Council, and convenes Council meetings at least twice in each financial year.

Meetings of the Budget Council may be attended by:

- The Chairperson of the Financial and Fiscal Commission or a delegation of the Commission designated by the Chairperson of the Commission; and
- Any other persons by invitation.

Source: Intergovernmental Fiscal Relations Act, No. 97, 1997

6.3.2 The Local Government Budget Forum

The Local Government Budget Forum is a body in which the national government, the provincial governments and organised local government consult on:

- Any fiscal, budgetary or financial matter affecting the local sphere of government;
- Any proposed legislation or policy which has a financial implication for local government;
- Any matter concerning the financial management, or the monitoring of the finances, of local government; or
- Any other matter, which the Minister has referred to the Forum.

The Local Government Budget Forum consists of:

- The Minister of Finance
- The MEC for finance of each province;
- Five representatives nominated by the national organisation (SALGA) recognised in terms of the Organised Local Government Act, 1997; and
- One representative nominated by each provincial organisation recognised in terms of that Act.

The Minister of Finance is also the Chairperson of the Budget Forum, and convenes Forum meetings at least once in each financial year. Meetings of the Budget Forum may be attended by:

- The Chairperson of the Commission or a delegation of the Commission designated by the Chairperson of the Commission; and
- Any other persons by invitation.

Source: Intergovernmental Fiscal Relations Act, No. 97, 1997

6.3.3 The Financial and Fiscal Commission

The Financial and Fiscal Commission makes recommendations envisaged in the Constitution, or in national legislation, to Parliament, provincial legislatures and any other authorities determined by national legislation. The Commission is independent and impartial, and subject only to the Constitution and the law. The Commission consists of nine women and men with appropriate expertise, who are appointed by the President. The Commission must report regularly both to Parliament and to the provincial legislatures.

Source: The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)

6.4 The division of revenue process

All revenue raised by national government is paid into the National Revenue Fund. Every year, this revenue is shared, and the money is allocated in terms of section 214 of the Constitution, through an Act of Parliament.

This Act may be enacted only after the provincial governments, organised local government and the Financial and Fiscal Commission have been consulted, and any recommendations of the Commission have been considered. The Act must take into account:

- The national interest;
- Any provision that must be made in respect of the national debt and other national obligations;
- The needs and interests of the national government, determined by objective criteria;
- The need to ensure that the provinces and municipalities are able to provide basic services and perform the functions allocated to them;
- The fiscal capacity and efficiency of the provinces and municipalities;
- Developmental and other needs of provinces, local government and municipalities;
- Economic disparities within and among the provinces;
- Obligations of the provinces and municipalities in terms of national legislation;
- The desirability of stable and predictable allocations of revenue shares; and
- The need for flexibility in responding to emergencies or other temporary needs, and other factors based on similar objective criteria.

Source: The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)

At least ten months before the start of each financial year, the Financial and Fiscal Commission must submit to the Houses of Parliament, the provincial legislatures and the Minister of Finance, recommendations for that financial year regarding:

- An equitable division of revenue raised nationally, among the national, provincial and local spheres of government;
- The determination of each province's equitable share in the provincial share of that revenue; and
- Any other allocations to provinces, local government or municipalities from the national government's share of that revenue, and any conditions on which those allocations should be made.

After receiving any recommendations of the Commission in terms of section 9(l), but before the Division of Revenue Bill is introduced in the National Assembly, the Minister of Finance must consult:

- The provincial governments, either in the Budget Council or in another way;
- Organised local government, either in the Budget Forum or in another way; and
- The Financial and Fiscal Commission.

The Minister of Finance introduces for tabling, the allocations to the National Assembly, together with the Annual Budget in the form of a Division of Revenue Bill.

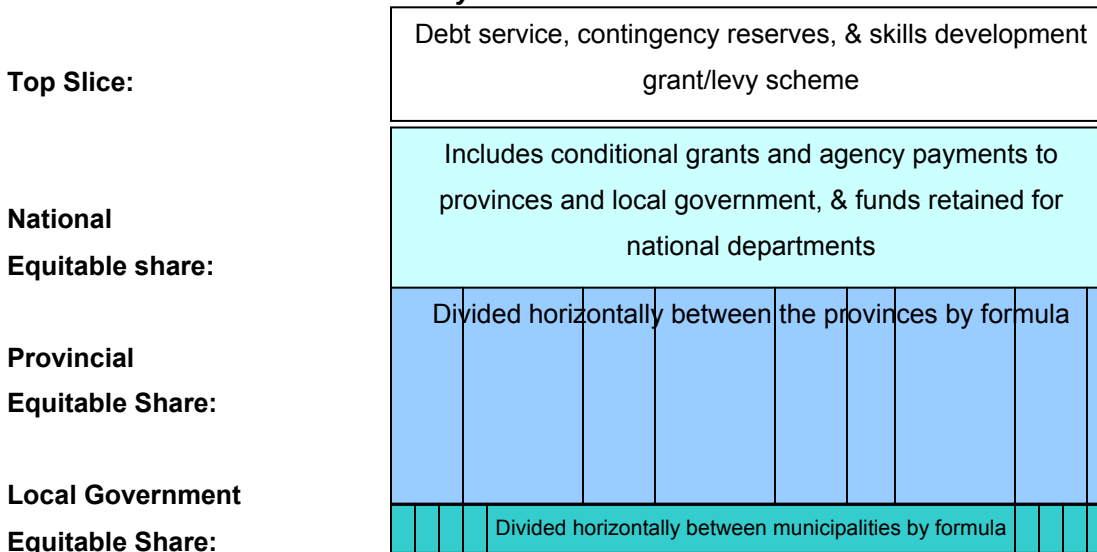
Source: Intergovernmental Fiscal Relations Act, No. 97, 1997

6.5 Implications of the National Division of Revenue

6.5.1 Top-slice

Before dividing these funds between the spheres of government, a certain amount is **top-sliced** to go towards debt service and contingency reserves. The remaining funds are then divided vertically, as shown in the diagram below.

Division of revenue raised nationally

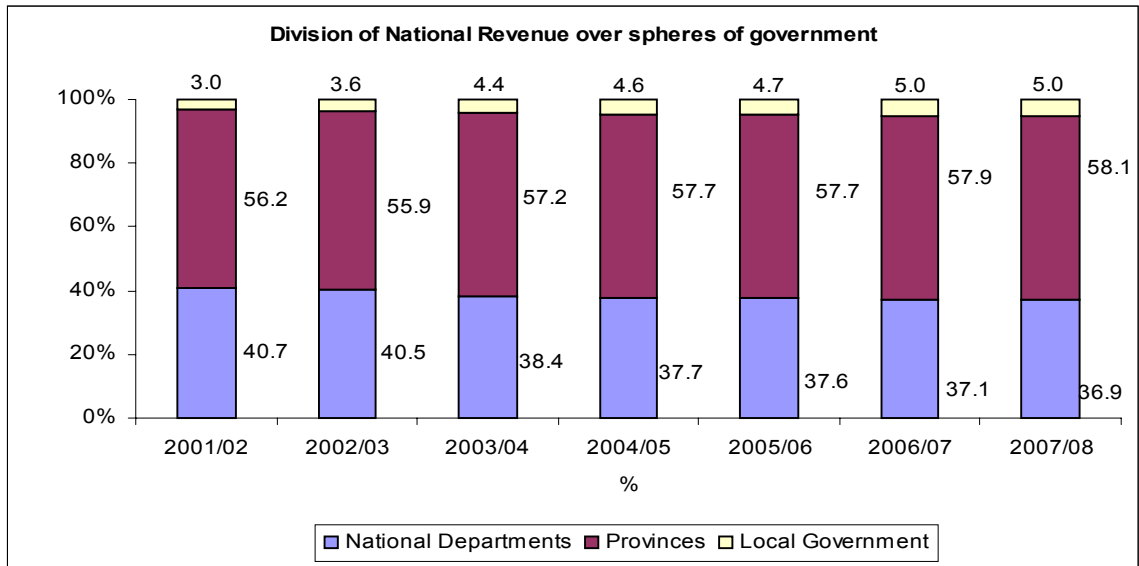


Adapted from: Hickey & van Zyl, 2002 South African Budget Guide and Dictionary. IDASA, Budget Information Service.

6.5.2 Vertical Division of Revenue

The **vertical division** divides funds between the national, provincial and local spheres of government. The largest portion of the funds available for the vertical division is allocated to the provincial sphere of government, which is responsible for the bulk of social service delivery. The vertical division of revenue is a political process, involving negotiations and agreement between the actors in the division of revenue process described above.

Graph: Division of Nationally Collected Revenue over spheres of Government



Source: National Treasury, Budget Review 2005. Own calculations.

For more information about implications of the vertical allocation of revenue for local government consult the following:

- Whelan, P. (2003). *Local Government Equitable Share. Occasional Paper. Idasa, Budget Information Service.*
- *Budget Review, Annexure E, released by National Treasury every year on National Budget Day (February / March).*
- *Division of Revenue Bill and Division of Revenue Act released by National Treasury every year on National Budget Day (February / March).*

6.5.3 Horizontal Division of Revenue

A **horizontal division** of revenue then divides the total provincial revenue pie amongst South Africa’s nine provinces. The local government share is likewise divided horizontally amongst municipalities. The horizontal division of revenue is done by using an ‘equitable share’ formula, which takes various demographic and socio-economic factors into account. For more information about the horizontal division of revenue see Chapter 9 of this guide, and Annexure E in the

annual Budget Review released by National Treasury every year in February or March, on National Budget Day.

Source: Hickey, A. and Van Zyl, A. (2002) South African Budget Guide and Dictionary. IDASA, Budget Information Service.

Chapter summary

- Revenue refers to the income of government.
- In South Africa, the bulk of revenue is collected nationally, paid into the National Revenue Fund and then redistributed among the spheres of government through annual acts of parliament.
- On average, local governments collect 86% of their own revenue. However some municipalities struggle to raise even 8% of their own revenue independently.
- The key role-players in the division of national revenue include, the budget council, the local government budget forum, and the financial and fiscal commission.
- The division of national revenue happens on three levels:
 - The first is known as top-slicing.
 - The second is known as the vertical division of revenue, where funds are divided between the three spheres of government.
 - The third division is known as the horizontal division and refers to the allocation between the nine provinces and then between municipalities.
- The horizontal division of revenue is done by using the equitable share formula.

CHAPTER 7: LOCAL GOVERNMENT REVENUE STREAMS

Chapter seven introduces the revenue sources particular to local government, including own revenue and transfers¹. Transfers from national government include equitable shares and conditional grants. The chapter covers the rationale for transfers and looks at the relationship

¹ This chapter has been based primarily on the following occasional research papers:

- Whelan, P. (2003). Evaluating the local government grant system. Occasional Paper. IDASA, Budget Information Service.
- Whelan, P. (2003). The local government equitable share. Occasional Paper. IDASA, Budget Information Service.
- Whelan, P. (2004) A review of selected local government revenue reforms. Occasional Paper. IDASA, Budget Information Service.
- Whelan, P. (2004) Local government and Budget 2004. IDASA, Budget Information Service.

between the types of government service and the type of revenue used to fund it. Transfers are also referred to as grants; the terms are used interchangeably here.

7.1 Differences in municipalities' revenue raising capacity

Municipalities in South Africa on average obtain about 86 % of their income from their own revenue sources, while around 14 % of municipal budgets consist of national and provincial transfers to municipalities. However, some municipalities in poorer areas of South Africa can be dependent for over half of their budget (up to 92 percent) on allocations from national revenue.

Source: National Treasury (2004). Trends in Intergovernmental Finances: 2000/01-2006/07: 29-30.

Equitable share and conditional grant allocations from nationally collected revenue are transferred to add to municipalities' own revenue raised, to ensure that their revenue matches the expenditure to deliver the services for which they are responsible.

The three main revenue streams for municipalities are thus:

- Own Revenue
- Equitable Share
- Conditional Grants

The MFMA further provides that in order to raise funds, municipalities can issue so called "paper bonds" on the Bond Exchange of South Africa without national or provincial government guarantees. Only the City of Johannesburg has thus far made use of this facility. Municipalities can also take out loans from external public or private agencies, such as the Development Bank of Southern Africa (public), or the Infrastructure Finance Corporation (private). Plans to incur long-term debt must be made public, to comply with the MFMA. It should be noted here, however, that many South African municipalities are already struggling with debts, for example because of non-payment or non-collection for rates and services.

7.2 Inter- and intra-governmental transfers

Sometimes the tax revenues available to a particular municipality for funding public services may not be raised exclusively at the local level, using local tax instruments. A municipality may receive transfers from other spheres of government (national or provincial government) or from another municipality.

In South Africa, transfers mainly occur for two reasons, namely to:

- Fund a fiscal gap, where a municipality raises less revenue than it needs; or to
- Direct local government behaviour to ensure that certain national or provincial objectives are met. These transfers are known as conditional grants.

7.3 Fiscal gaps and the unconditional grant (equitable share)

By far the most important reason for national tax-funded transfers to local government is to address the fiscal gap. Such a gap arises when the tax revenue that can potentially be raised locally falls short of a municipality's constitutional expenditure responsibility.

This gap has vertical and horizontal dimensions. The vertical fiscal gap occurs because the total cost of carrying out local government's constitutional mandate is not balanced by the sum of all taxes assigned to local government. Local government can therefore be said to have a "negative fiscal gap". National government, by contrast, experiences a "positive fiscal gap". In other words, the sum of national tax yields outweighs the cost of national government's expenditure responsibilities.

This imbalance arises because a number of taxes - especially those with the largest potential yields - are better collected at the national level. For example, it is beneficial for VAT and income tax to be collected nationally. If these revenue sources were assigned to the local level, they would become "mobile" and increase the likelihood of tax exporting between municipalities. From an administrative point of view, a number of taxes are complex and costly to collect. Collecting these taxes at the national level can generate substantial economies of scale. Economies of scale imply that savings are achieved in the cost of production or services by a larger organisation because the initial investment and fixed costs can be shared across a greater number of service units².

The horizontal fiscal gap occurs because the value of immobile or local tax bases is unevenly distributed between municipalities. In South Africa, this is due to the very uneven geographic distribution of economic activity

² Adapted from definition in: odur.let.rug.nl/~usa/GEO/glossary.htm.

A transfer made to address a fiscal gap, whether vertical or horizontal, is commonly referred to as an unconditional or block grant, such as the equitable share. Typically, the grantor would not specify any conditions for the use of the transfer by the grantee municipality.

7.4 Directing expenditure and the conditional grant

A transfer may be made to direct local government toward certain types of behaviour, by attaching conditions for the transfer's use to the transfer. A transfer earmarked to fund certain activities is commonly called a conditional grant.

A transfer may also involve a mixture of conditional and unconditional elements. Such a transfer is conditional, where the conditions of use are quite broadly defined and relate to some activity in which the municipality experiences a gap, e.g. infrastructure of a certain type. The grantee municipality largely determines the detailed content of the transfer's use.

7.5 Types of government services and implications for the type of revenue

The **benefit principle** implies that those individuals who benefit from a service should pay for it in some way. Using benefit as point of departure, four basic types of municipal services can be identified as shown in the table below. The table categorises services according to the ease with which beneficiaries can be identified. The latter is important to determine **tax incidence**, which implies defining who carries the real burden of a tax or revenue.

Table: Classification of services on basis of benefit principle

Type of goods	Characteristics	Examples
Public	<ul style="list-style-type: none"> • Impossible or difficult to exclude consumers from benefiting from the good (non-excludable) • Use of the good by one consumer does not reduce or use up the good and diminish the amount that other consumers can use (non-rival) 	Street lighting Major roads Disease control Fire fighting response

	<ul style="list-style-type: none"> • “Benefits everybody collectively and indiscriminately” 	
Private	<ul style="list-style-type: none"> • Goods that are consumed by an individual or household and benefit only that household • Individual or household can easily be excluded from using the good (excludable) • Good is used up by consumer, leaving less for other consumers (rival) 	Water for private swimming pool
Mixed public - private	<ul style="list-style-type: none"> • Goods that may benefit one person particularly but have quite a large effect on others – the effects are referred to as externalities or spillovers, which can be positive or negative. 	Water and sanitation: benefit individual household but also reduce contagious diseases
Merit	<ul style="list-style-type: none"> • Private goods or services with limited externalities but which society feels should be subsidised to allow for broad consumption of the good across the municipality 	Domestic electricity Library services

Source: Adapted from Mc. Master 1991, in Whelan, P (2002) Local Government Revenue. BIS, Idasa.

The nature and intended beneficiaries of goods and services influence the suitability of the type of revenue instrument used to fund or pay for the service. This is explained in the table below.

Type of goods	Most suitable type of revenue instrument	Reason
Public	Tax-funded	Because individual consumption cannot be measured
Private	User charges	Because the benefit that the individual derives from the service can readily be assessed
Mixed public - private	Mix of taxes and user charges depending on ‘assumed’ or judged degree of public benefit. The tax amounts used to fund the public benefit components of mixed goods are subsidies.	
Merit		

Source: Adapted from Mc. Master 1991, in Whelan, P (2002) Local Government Revenue. BIS, Idasa.

Chapter summary

- Municipalities have differing ability to raise sufficient revenue to fund their constitutional obligations. While on average municipalities raise 86% of their own income, some municipalities are dependent on other spheres of government for up to 92% of their needed revenue.
- There are two main sources or streams of local government revenue, own revenue, or transfers, such as equitable share and conditional grants.
- Transfers are made to either address a fiscal gap or to direct local government spending.

- Fiscal gaps are funded through the use of unconditional or block grants, such as the equitable share.
- Conditional grants are used to influence local government spending.
- Services can be classified into four basic types, using the benefit principle.
- The way revenue is raised has implications for equity and efficiency.

CHAPTER 8: LOCAL GOVERNMENT OWN REVENUE

Revenue collected by the municipality is, in most cases, the main supply of income for local government and is referred to as own revenue. This chapter examines the major sources of own revenue, such as user charges, taxes and subsidies³. These types of revenue are collected through various means, known as revenue instruments and are detailed below. The criteria used to evaluate revenue instruments in terms of equity and efficiency are outlined at the end of the chapter.

8.1 Local government own revenue

At local government level, own revenue is normally regarded as **operating revenue**. **Operating expenses** refers to money spent on items that are consumed during a year, including salaries, consumables, administrative items, and so forth. However in South Africa, some operational revenue instruments are used to fund **capital budgets**, which include durable items, referred to as **capital expenses**, such as equipment, machinery and buildings. These items have a life span of at least one year. **Capital revenue** refers to resources used to fund the capital budget.

8.2 Major sources of own revenue

The major sources of operating revenue available to municipalities are user charges associated with the four largest local government functions: water, sanitation, electricity and solid waste, as well as taxes open to local government and subsidies. A review is currently underway to address any misalignments between the powers and function of municipalities, and the powers to raise the revenue to finance these functions (see info box below).

Info Box: Review to align powers and functions with revenue sources

“The current division of powers and functions between categories of municipalities is not necessarily aligned to the way in which fiscal powers and functions are divided or shared, especially between Category B (local) and C (district) municipalities. Consequently, certain municipalities have access to their own revenue sources, such as property tax, although the responsibility to perform major functions such as water and sanitation may vest with another

³ This chapter has been based primarily on the following Occasional Research Papers:

- Whelan, P. (2002). Local Government Revenue. Occasional Paper. IDASA, Budget Information Service.
- Whelan, P. (2004). A review of selected local government revenue reforms. IDASA, Budget Information Service.

category of municipality. A review is under way to improve this alignment”.

Quoted from: National Treasury, 2005 Medium Term Budget Policy Statement, p.69

8.2.1 User Charges

A user charge is the price paid by an individual consumer for a particular service, often based on the amount of the service that the individual consumer has used. Determining the price of a user charge involves measuring the amount of the service the individual has consumed and setting a charge per unit of consumption. A charge per unit need not be constant over the range of consumption; it can increase or decrease as consumption rises. Some charges, however, especially solid waste removal, may be on a flat fee basis where consumers are charged a flat fee regardless of how much solid waste is removed. A flat fee is mostly used when it is difficult to measure individual consumption. Most of the revenue generated through a utility service is spent on providing the service, although some municipalities generate profits on electricity, and some on water.

8.2.2 Taxes

Taxes differ from user charges in that there is no direct link between the tax and the service provided. Taxes can be levied on three different tax bases, namely a taxpayer's income, consumption or wealth. The tax rate is the percentage tax levied per unit of the base. In South Africa the most significant sources of nationally raised tax revenue are VAT (a tax on consumption) and personal income tax (a tax on income). VAT is levied at a fixed rate of 14% whilst the personal income tax is progressive: the rate increases as a taxpayer's income increases.

8.2.3 Subsidies

Charges that resemble taxes can also be generated from user charges, if the amount charged to a consumer is greater than the cost of delivering the service to the consumer. A surplus is then created which can be used to subsidise a municipality's services. When the cost of delivering a service is greater than the revenue raised for the service, additional resources are required to fund the delivery. These additional resources are called subsidies. A surplus generated through user charges can be used to subsidise service in three ways.

- Firstly, it can be used to subsidise services that are normally tax funded.
- Secondly, the surplus can be used to subsidise a set of consumers of the service in which the surplus was generated. In this case the surplus is normally generated from

those consuming higher levels of service (a higher standard or larger quantities of service) and is directed to consumers using a lower level of the same service. For instance, a household using a very large amount of water (one with a swimming pool) may be charged a fee that is greater than the cost of supplying the large amount of water. The difference between the fee and the costs of delivery for high users is equal to the surplus and can be used to subsidise households using a smaller amount of services.

- Thirdly, a surplus may be generated from higher level consumers of one service and transferred as a subsidy to lower level users of another service.

These three types of subsidies are sometimes called cross-subsidies as they entail generating a surplus from a set of services (user charge payers) and transferring them across to another set of users (taxpayers).

8.3 Revenue instruments used in local government

The above revenue types are collected through different revenue instruments – though transfers are received rather than collected. The table below summarises the most important operating revenue instruments and the uses for the collected funds.

Table: Operating revenue sources, instruments and uses

Source	Uses
Tax	
Property Tax	General Services and governance, such as municipal administration planning and development, health, community and social services, public safety, sport and recreation, environmental protection.
RSC Levies: payroll levy and turn-over levy	Variable, e.g. subsidies for health, roads, emergency services, local trading services, administration and planning of capital spending, funding interest payments and redemption payments (capital charges)
Surcharge on municipal service fees	Not generally used to date
Minor levies, duties, etc.	Partially cover some public service aspects
User Charges	
Non-surplus	Trading services including capital charges. Cover some of the cost of general services.
Surplus – especially	Subsidies: general services or loss-making trading services

electricity distribution	
Minor charges	Partially cover some private service aspects
Transfers	
Unconditional	E.g. Equitable Share, can be used for anything, though Treasury and DPLG encourage municipalities to finance subsidies targeted at basic services for poor households
Conditional	Operating and maintenance costs of Department of Water Affairs-owned schemes – this can be passed on to water users in the form of tariff subsidies; capacity building and technical support under the auspices of National Treasury and DPLG
Agency Payments	
Agency Payments	Usually from provinces to subsidise health and road maintenance services

The main capital revenue sources, instruments and uses are summarised in the table below.

Table: Capital revenue sources, instruments and uses

Own Revenue	Capital uses
RSC Levy	Cash-funded capital projects: Directed by District Councils to areas of perceived need
Transfers: Conditional	Cash funded: internal bulk, connector, internal service infrastructure, community facilities, schemes built up by DWAF for transfer to municipalities; electrification; sports facilities, etc. All can be passed on to service users in the form of tariff or tax subsidies
Internal Loans: Consolidated Loans Fund and other internal reserves and funds	Debt-funded capital projects – capital charges are paid on the operating expenditure side
External debt: Loans, bonds, structured finance	Debt-funded capital projects – capital charges paid on the operating expenditure side

8.4 Main Local Government Revenue Instruments – More Detail

8.4.1 Regional Services Council levy

The Regional Services Council (RSC) levy is defined and regulated by the pre-1994 RSC Act and assigned to district and metro municipalities by the Local Government Transition Act (LGTA - Act 209 of 1993). The levy consists of payroll tax, a tax on the salary bill of businesses, and a turnover tax - a tax on the gross sales of businesses. In terms of the RSC Act, the income

generated from these levies should be used for establishing, improving and maintaining infrastructural services and facilities in areas that need them most, to ensure an environment that is conducive to business.

A number of concerns have been raised about the assignment and administration of these taxes. Municipalities were not granted powers to conduct their own assessments of liabilities and relied on the assessment of taxpayers themselves. Given that assessments were not very frequently verified (e.g. by SARS), false self-assessments were perpetuated by this legislative condition. There were no penalties for non-payment (although interest on arrears may be charged). Due to these limitations, RSC levies will be abolished per July 2006, and municipalities will be compensated by National Treasury for loss of revenue (National Treasury, 2005 Medium Term Budget Policy Statement, p. 68).

Turnover tax

These taxes are applied at each point in the production chain where input goods move from one company involved in the production to another, so that a tax lower down in the production chain is then itself subject to tax at the next level. This tax-on-tax encourages vertical integration whereby single companies seek to include all aspects of a product's manufacture from raw material to distribution within themselves. Such behaviour is often driven by tax avoidance, rather than seeking to improve production efficiency and is therefore seen as inefficient.

Payroll tax

This tax is essentially a tax on labour and might therefore have a net effect of discouraging employment creation. There is a concern that employers pass this tax along to their employees.

8.4.2 Property tax

This tax is exclusively assigned to local government by the Constitution. Previously, property tax was regulated by provincial ordinances or regulations. The base of the tax differed depending on the province in which the municipality was located. Bases included land only, improvements only, a uniform tax on land and improvements, and differentially weighted tax on land and improvements. "Improvements" refer to any physical development of the land such as buildings that have been built on a piece of land.

However, the new Municipal Property Rating Act (2004) requires that *"valuation will be based on the market value of a property, namely, land plus improvements. Each municipality will continue to set and collect property rates in a manner appropriate to its circumstances. Municipalities should monitor the impact of the new valuation system on different sectors, including the*

residential sector, to avoid exorbitant increases in rates. Should the rates base substantially increase due to the new market-based valuation roll, municipalities should reduce the rate in the Rand levies”

Source: National Treasury, Budget Review 2005. p. 26

8.4.3 Consumption tax

The power that municipalities have to tax service users on the amount of local government services they use is catered for by the Constitution. The provision was originally put forward as a mechanism to compensate municipalities licensed to distribute electricity for the surpluses generated from electricity sales that they would lose following the introduction of the restructuring of the electricity distribution industry through Regional Electricity Distributors (REDs). Electricity surpluses tended to be highly significant in the pre-1994 period because they are relatively easy to collect given the low price elasticity of electricity and the ease with which non-payment can be sanctioned through cut-offs. An independent body, the National Electricity Regulator (NER), set up by the Department of Minerals and Energy to regulate all aspects of the electricity supply industry, including generation, transmission and distribution, is trying to phase out electricity surpluses altogether, because of the wedge they drive between price and cost.

8.4.4 User charges

Charges for water and electricity, the most common user charges, are briefly discussed below.

Water user charge

Raising resources through water user charges has always been seen as a municipal power. “Water services” is the collective term for water distribution and sanitation services. The authority for water services is clearly established as municipal. Outside of metropolitan areas, however, the power to raise water revenues in a particular geographic area has to be allocated to either the local or the district municipality. Water tariffs (including subsidies) are used to cover the cost of services; any subsidies need to be directed to basic services. Communal or controlled volume is to be charged at the lowest rate; and uncontrolled use by volume-based charges. There is thus a direct relationship between service level and pricing, though tariffs can include a fixed charge and connection fee.

Electricity user charges

Electricity distribution authority has not been assigned to local government with the same clarity as in the case of water. Some of the municipalities used to generate substantial surpluses on their electricity charges. As stated above, National Treasury and the Financial and Fiscal Commission, in consultation with key stakeholders will assess steps to be taken to protect

municipalities from negative financial impact due the establishment of RED's (National Treasury, Budget Review 2005, Annexure E. p. 272).

8.5 Importance of the different operating revenue instruments

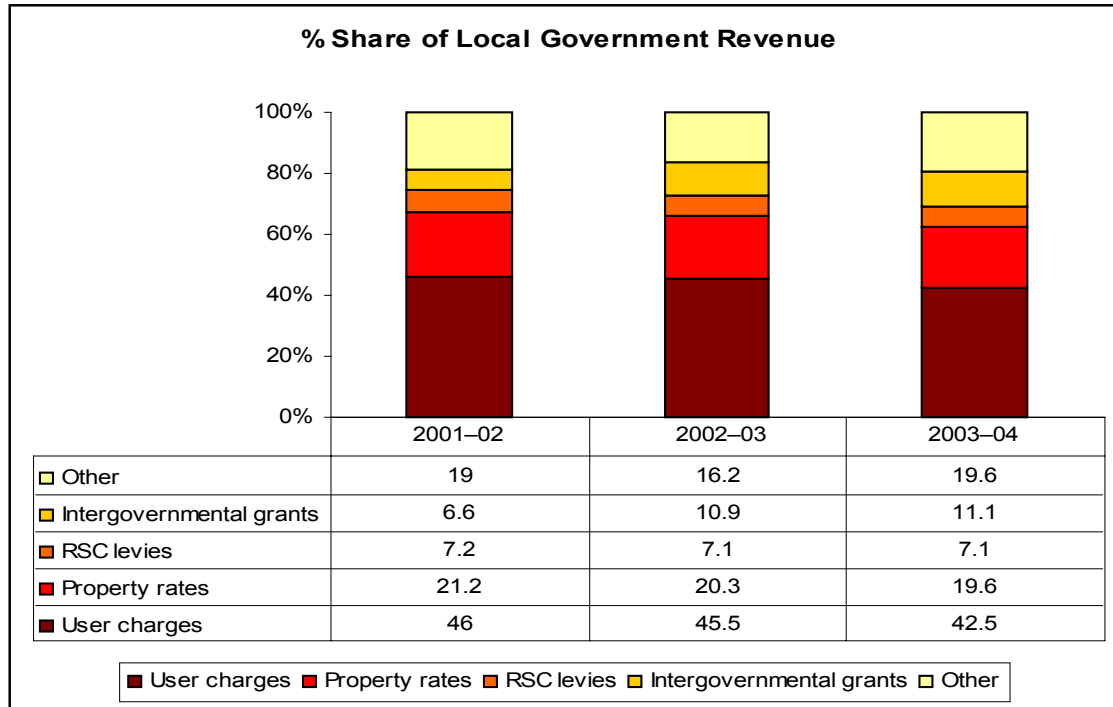
The table below shows that user charges generally bring in most municipal revenue (over 40%), followed by property rates (around 20%). For district municipalities, RSC levies and subsidies / grants used to be the most significant sources of revenue in 2000/01, though as discussed above this source of revenue will be replaced by a National allocation from 2006/07 onwards. For both metro and local municipalities, electricity user charges generally used to bring in the bulk of revenue, followed by property rates and water charges. However, this differs per individual municipality, depending on the municipal powers and responsibilities. Furthermore, the introduction of RED's will considerably impact on the distribution of electricity revenues for affected municipalities.

Table: Operating revenue instruments

	<i>R' Billion</i>			<i>Percentage change</i>	
	2001–02	2002–03	2003–04	01/02–02/03	02/03–03/04
User charges	25	28	31	12.00%	10.70%
Property rates	11.5	12.5	14.3	8.70%	14.40%
RSC levies	3.9	4.4	5.2	12.80%	18.20%
Intergovernmental grants	3.6	6.7	8.1	86.10%	20.90%
Other	10.3	10	14.3	-2.90%	43.00%
Total	54.3	61.6	72.9	13.40%	18.30%

Source: National Treasury, Local Government Data Base, as provided in IGFR 2004: 26.

Graph: Relative importance of Local Government Revenue Instruments



Source: National Treasury, Local Government Data Base, as provided in IGFR 2004: 26. Own calculations: percentage share of total.

8.6 Revenue Collection

The capacity of a municipality to deliver services is highly dependent on its ability to bill and collect revenue from its own resources. Revenue collection has long been a major financial problem for municipalities. The total outstanding consumer debt to municipalities has risen to an estimated R28 Million (2003). Many households with large debts are poor, and there is little prospect of recovering their arrears. Resolving arrears is an important challenge for municipalities (For more about this consult the 2004 Intergovernmental Fiscal Review (IGFR), page 35f.).

8.7 Criteria and principles for assessing revenue instruments

8.7.1 Assessment Criteria and Principles for tax instruments

As stated in section 6.1, the ways in which revenue is raised has implications for equity and efficiency. The table below summarises a number of criteria and principles, which can be used to evaluate revenue instruments.

Criteria	Principles
Adequacy and elasticity	<ul style="list-style-type: none"> • A tax should be adequate to meet the cost of the service it intends to finance. • As the demand for the service that the tax is intended to finance increases, the tax should be able to yield more revenue. In other words, the tax base should grow automatically when prices rise, population increases or the economy expands – although there might be a time lag between the shock or pressure and the adjustment to the tax base.
Benefit Principle	<ul style="list-style-type: none"> • People should pay tax in proportion to the benefit they derive from the service funded by the tax.
Horizontal equity	<ul style="list-style-type: none"> • The tax burden should be equitably distributed across different sources of income (for example, salaries, capital earnings, small business earnings) for individuals of the same income level. • The tax should be consistently applied within groups of taxpayers.
Vertical equity	<ul style="list-style-type: none"> • The burden of tax should be equitably distributed across people of different income levels. • The tax burden should be related to the financial capacity of the taxpayer to pay tax (the ability-to-pay principle) • The percentage of a person’s income paid in tax should increase with the level of that income (<i>progressiveness</i>) – this is normally used to assess whether a tax complies to the ability-to-pay principle • Tax rebates and exclusions can be used to get taxes to conform to the ability-to-pay principle
Administrative ease	<ul style="list-style-type: none"> • Administrative costs (including the cost of acquiring skills to administer), especially assessment costs and compliance costs should not be unduly heavy. • The administrative cost of implementing rebates and exclusions from the tax base should not be too heavy. • The costs associated with collecting the tax should be kept to a minimum.
Political Acceptability	<ul style="list-style-type: none"> • Indirect taxes, which are charged on goods and services, are more acceptable to taxpayers than direct taxes, which are charged on individuals. This is because indirect taxes are less visible and are often not viewed separately from the market price of the taxed good or service. • Rebates and exclusions that favour one group may not be acceptable to other groups. If other groups are politically strong they may not support the rebate policy. or may seek to undermine it over time.

Efficiency	<ul style="list-style-type: none"> • Allocative efficiency: Taxes have an effect on the decisions of the taxpayer and the taxpayer’s propensity to work, consume, save and invest. Taxes should at least be neutral in order to have as little effect on these decisions as possible. When a tax has an effect on behaviour or decision-making, it is said to distort behaviour. Distortionary taxes can, however, be used to promote behaviour seen as desirable by policy-makers. • Productive efficiency: The distortionary effect of a tax can be minimised in some cases by lowering tax levels. Tax levels can be lowered by minimizing the revenue requirement – that is, the need to spend. The revenue requirement can in turn be lowered by increasing the productive efficiency of spending. Productive efficiency involves maximizing outputs with a given set of inputs. One way to increase productive efficiency is to increase the transparency of tax liability, rebates and exclusions. In theory, this will enhance the accountability of the municipality, the spending agent.
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Sources: Adapted from McMaster (1991), White Paper on Local Government (1998), Bahl and Solomon (2000), Bell and Bowman (2002), in Whelan P. (2002).

8.7.2 Principles for user charges

The principles in the table above can also be applied to user charges:

Criteria	Principles
Adequacy and elasticity	<ul style="list-style-type: none"> • User charges also have to be adequate, but they do not automatically increase following a shock that increases expenditure demand. They have to be conscientiously increased, usually through a political process.
Benefit Principle	<ul style="list-style-type: none"> • User charges, because they are usually charged in proportion to the amount of service consumed, conform to the benefit principle.
Horizontal equity	<ul style="list-style-type: none"> • User charges can generally be assumed to be equitable for users within one income group, as they should all be paying the same unit price.

<p>Vertical equity</p>	<ul style="list-style-type: none"> • User charges have to be subsidised in order to conform to the vertical equity principle. • The need for vertical equity can also be argued from an economic point of view using the concept of the price of elasticity of demand. The concept refers to how the demand by consumers for a good, responds to the price of the good. If elasticity is high, consumer demand for the good will drop dramatically with a small increase in the good's price. If the good is an essential good, consumers will look for substitutes, which may be the same goods illegally obtained or be goods of lower quality. Lower quality goods may have health implications for consumers e.g. unprocessed water as a substitute for piped, processed water.
<p>Administrative ease</p>	<ul style="list-style-type: none"> • In theory, user charges are easier to collect than taxes. They are based on measurable levels of consumption and people only get the services they pay for. • This ease of collection is, however, disrupted by technical difficulties with measuring consumption, and implementing sanctions and remedies for non-payment, which are often politically unpopular (such as attachment of property).
<p>Political Acceptability</p>	<ul style="list-style-type: none"> • User charges may be regarded as politically acceptable in principle, but the level of the tariff may be sensitive. • The services funded via user charges are usually regarded as necessities by consumers and service payments are made out of pocket, and are thus highly "visible".

<p>Efficiency</p>	<ul style="list-style-type: none"> • User charges may also be more allocatively efficient or less distorting than taxes - if prices are set through providers competing in a service market for their customers. According to classical economic theory, a price set competitively sends out the correct signal about the relative value of the service and the resources that are used in production. It allows consumers to make good economic decisions about the amount of services to consume. • However, municipal prices are not usually set competitively, as services are often supplied by a single provider – the municipality; it is thus a monopoly market. • As an alternative, user charges should therefore be as cost-reflective as possible to achieve allocative efficiency. Subsidies drive a wedge between real cost and service price. To help restore the allocative efficiency of the price signal, subsidies should be made transparent. • A wedge can also open up between competitively set prices and the prices actually charged by the provider because of the productive inefficiency of the provider. Making all prices and subsidies transparent enhances provider accountability to politicians and citizens, thereby assisting in applying downward pressure on production costs.
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Chapter summary

- In most cases, municipalities’ main supply of income is revenue collected independently. This is known as own revenue.
- The main sources of own revenue are; user charges, taxes and subsidies.
- These revenue types are collected through various revenue instruments, and primarily used to fund operational expenses such as salaries, administrative items, and other such things ‘consumed’ within a financial year.
- The primary operating revenue instruments used to collect income include; property tax, Regional Service Council levies, surcharges, non-surplus and surplus user charges and conditional and unconditional transfers.
- Primary capital revenue instruments include Regional Service Council levies, conditional transfers, loans and debts.
- The ways in which revenue is raised has implications for equity and efficiency. A number of criteria and principles can be used to evaluate the various revenue instruments.
- Similarly, there is a set of criteria and principles, which can be used to evaluate user charges in terms of equity and efficiency.

CHAPTER 9: TRANSFERS - LOCAL GOVERNMENT EQUITABLE SHARE AND CONDITIONAL GRANTS

Chapter nine continues the discussion on local government revenue by examining two primary types of transfers, namely equitable share and conditional grants⁴. It begins by defining key terms, introducing the legislation that governs the transfers and looks briefly at the requirements for a system of transfers and how co-ordination between transfers is important for municipal functioning.

9.1 Definition: Local government transfers

Transfers originate outside of local government. They are raised by other spheres of government using revenue instruments particular to those spheres. In South Africa between 15% and 20% of all local government revenue comes from national and provincial grants, depending on the method of calculation. Some municipalities in rural provinces tend to be more dependent on national transfers. In some cases national transfers make up over 50% of a municipality's income. Along with local government's own revenue, raised mainly from its taxes and user charges, transfers make up the total resources available to local government. In the financial year 2003/04 the total of these grants was R14.5bn, of which 44% was the equitable share.

9.2 Definition: Local Government Equitable Share

The Local Government Equitable Share (LGES) is one element in a system of transfers that flow to local government.

The equitable share plays a gap-filling role and therefore takes into account the (own revenue) resources that municipalities have at their disposal. After the division of national revenue into a vertical share for each sphere of government, a formula is used to allocate each municipality an equitable portion of the local government equitable share.

⁴ This chapter draws primarily on the following research papers:

- Whelan, P. (2003). Evaluating the local government grant system. Occasional Paper. IDASA, Budget Information Service.
- Whelan, P. (2003). The local government equitable share. Occasional Paper. IDASA, Budget Information Service.
- Whelan, P. (2004). Local government and Budget 2004. Occasional Paper. IDASA, Budget Information Service.
- Vennekens, A. (2005). Local government and Budget 2005. Budget Brief. IDASA, Budget Information Service

9.3 Definition: Conditional Grants

In addition to the LGES, municipalities receive transfers from national departments, funded from the departments' equitable share allocations. These transfers are called conditional grants, because the departments specify the content of spending of the grant resources and the procedures in terms of which the grants should be spent. The departments designing the conditions and managing the conditional grant flows are referred to as transferring authorities. Some of the more restrictive conditional grants can take the form of **in-kind flows**, in which the transferring authority spends the cash resources to produce hard goods and services that are then transferred to municipalities. Provinces also transfer conditional grants to local government from their resources. National departments also make conditional transfers to provinces to fund support activities, which are taken on by provinces but are aimed at local government. Some of these transfers may be used to fund conditional transfers to local government. Unlike these conditional grants, the LGES (and the Provincial Equitable Share (PES) flow exclusively in the form of cash, and have associated spending norms and standards which are very general, indicating the due process for spending and reporting on spending.

9.4 The annual Division of Revenue Act (DORA)

DORA, first introduced in 1998 (Division of Revenue Act No. 28 of 1998), specifies and governs the LGES and the PES allocations, as well as the conditional transfers from national departments to municipalities and from national department to provinces. The Act quantifies all of the vertical and horizontal equitable share allocations to provinces and municipalities, as well as the conditional grants between national departments and municipalities and between national departments and provinces.

9.5 Allocation Criteria

The Act also gives the conditions and the allocation criteria under which transfers to the various municipalities and provinces are quantified. Allocation criteria can be applied through a) a formula which binds allocations to criteria in a deterministic manner, allowing a high degree of transparency and predictability to the allocation, or b) a more discretionary approach, allowing for more flexibility. General rules are given to transferring authorities regarding the management of transfers, including which precise municipal entities they should be transferred to, and how the flows should be monitored and varied to achieve good spending practices in the receiving municipalities. Many of these features have emerged in the wake of the 2001 grant reform initiative.

9.6 Requirements for a system of transfers

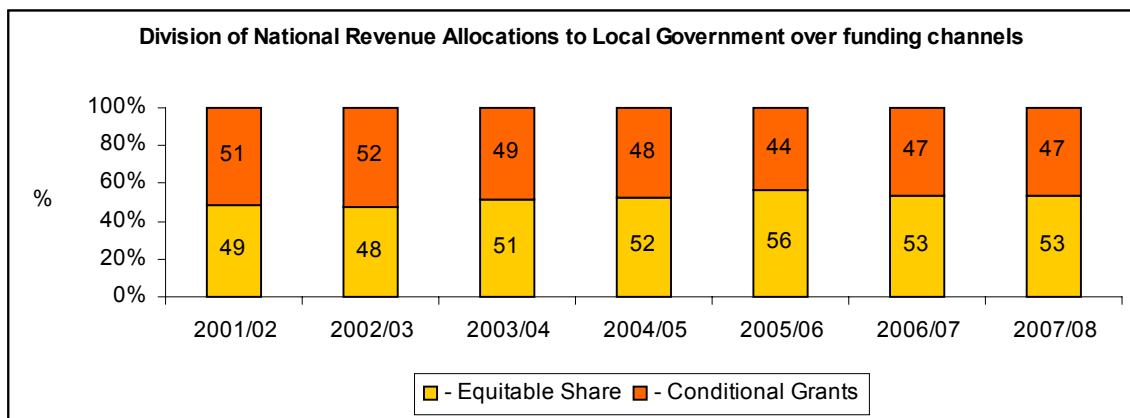
A system of grants should:

- Be predictable and transparent, so that municipalities can plan their expenditure rationally;
- Transfer adequate (sufficient) resources;
- Distribute available resources according to fiscal need (that is equitably), at least to a large degree;
- Give municipalities sufficient discretion to generate the potential efficiency gains arising from devolution.

9.7 Co-ordination between transfers

Achieving better co-ordination between transfers is critical. Municipalities need to be able to combine different streams of funding to establish financially sustainable and affordable services. One way of doing this is to ensure that all transferring authorities, including provincial housing departments, encourage such financial management practices. Transferring departments should be in a position to provide technical assistance to municipalities in the design of their service delivery packages, as well as their funding and cost recovery strategies and systems. Transferring departments also need to look critically at the size and timing of their flows to local government.

Graph: Proportional streams of transfer funding: Equitable share and conditional grants



Source: Vennekens, A. (2005) Local government and Budget 2005. Budget Brief. IDASA, Budget Information Service.

Chapter summary

- In South Africa, between 15% and 20% of all local government revenue comes from national and provincial transfers or grants.
- The two most important transfers are the equitable share and the conditional grant.
- Local government receives conditional grants from national departments' equitable share allocations.
- The Division of Revenue Act specifies and governs the local government equitable share and the provincial equitable share as well as the transfers from national departments to provinces and municipalities.
- Co-ordination between transfers is crucial for efficient financial management at local government level.

CHAPTER 10: THE LOCAL GOVERNMENT EQUITABLE SHARE FORMULA

Chapter ten provides more information about the local government equitable share formula. This formula is used to divide funds allocated to local government equitably between all the South African municipalities⁵. Information about any changes to the equitable share formula, and recommendations from the Financial and Fiscal Commission can be found in Annexure 2 of the Budget Review published by National Treasury each year. Guided by the information in the Budget Review, this chapter discusses the purpose, components, data, and principles of the equitable share before proceeding to set out the structure of the most recent formula. A case study is provided to illustrate the application of the formula.

10.1 Purpose of the Local Government Equitable Share

The purpose of the local government equitable share (LGES) is primarily to compensate for poor households that are unable to pay for the services that are delivered by the municipality. It takes into account the differences in revenue raising capacity between municipalities, and historical and geographic developmental imbalances.

10.2 Components in the LGES

The formula that is used to determine the equitable share for local government is presently under review. The formula allocates a portion of the equitable share to each municipality based on the following components, which are indicators of need for additional revenue:

- The ability of municipalities to provide basic services;
- Institutional support component;
- The fiscal (revenue raising) capacity and efficiency of municipalities;
- Developmental and other needs of local government;

⁵ This chapter draws primarily on the following research papers:

- National Treasury (2005). Budget Review 2005. Government Printer, Pretoria.
- Vennekens, A. (2005) Local Government and Budget 2005. Budget Brief. IDASA, Budget Information Service.
- Whelan, P. (2003). Evaluating the Local Government Grant System. Occasional Paper. IDASA, Budget Information Service.
- Whelan, P. (2003). The local Government equitable share. Occasional Paper. IDASA, Budget Information Service.
- Whelan, P. (2004). Local Government and Budget 2004. Occasional Paper. IDASA, Budget Information Service.

- Desirability of stable and predictable revenue shares.

Source: National Treasury, Budget Review 2005, Annexure 2, 259.

10.3 Data used in the LGES

Data used in this regard are:

- Population and number of households (Stats SA Census 2001 and Income and Expenditure Survey);
- Poverty rate and number of poor households (Stats SA Census 2001);
- Powers and functions for which a municipality has responsibility (responsibility for water, sanitation, refuse and electricity differs per municipality); and
- Revenue data.

10.4 Principles

The guiding principles for the LGES are:

- Equity in access to basic services for all South Africans;
- Allocative efficiency: funds allocated to deliver the services that citizens voted for;
- Spillover effects (side effects) must be appropriately funded; and
- Building the capacity of local authorities as one of the cornerstones of democracy.

Additional considerations in the LGES are:

- Rational, clearly articulated arguments on how the transfers promote the goals of equity, economic growth and efficiency;
- Unintended consequences should be limited, and perverse incentives avoided;
- Predictability;
- Accountability;
- Political acceptability and institutional capacity building; and
- Simplicity and transparency.

Source: National Treasury, Budget Review 2005, Annexure 2, 259 - 260.

10.5 Structure of the new (2005) LGES formula

$$\text{Grant} = \text{BS} + \text{D} + \text{I} - \text{R} +/- \text{C}$$

Where:

- BS = Basic Services Component
 D = Development Component
 I = Institutional Component
 R = Revenue Raising Capacity Correction
 C = Correction & Stabilisation Factor

Source: National Treasury, Budget Review 2005, Annexure 2, 260.

The amount of the equitable share for each municipality is calculated using the above formula. This is known as the horizontal amount. However, the sum of all the amounts thus calculated for municipalities does not necessarily add up to exactly the total amount that is allocated to the local government sphere. Therefore, an adjustment is made in order to ensure that the sum of horizontal allocations matches the vertical allocation. This is further explained in 10.5.5 under "Balancing Allocations".

10.5.1 The Basic Services Component

Principles:

- Supporting only poor households earning less than R800 per month.
- Distinguishing between poor households provided with services and those provided with lesser or no services.
- Recognising water reticulation, sanitation, refuse removal and electricity reticulation as the core services.

Formula:

$$\begin{aligned} \text{BS} = & \text{[Water subsidy 1 * Poor with water + Water subsidy 2 * Poor without water]} + \\ & \text{[Sanitation subsidy 1 * Poor with sanitation + Sanitation subsidy 2 * Poor without sanitation]} + \\ & \text{[Refuse subsidy 1 * Poor with refuse + Refuse subsidy 2 * Poor without refuse]} + \\ & \text{[Electricity subsidy 1 * Poor with electricity + Electricity subsidy 2 * Poor without electricity]} \end{aligned}$$

Source: National Treasury, Budget Review 2005, Annexure 2, 261.

The Budget Review states that the service costs per month (see table below) for each of the basic services, for serviced and un-serviced households have been used to update the basic services subsidy. Services need to be provided at RDP level for the municipality to qualify for a 'full' service subsidy. The cost for an un-serviced household is about a third of the subsidy for a serviced household.

Source: National Treasury, Budget Review 2005, Annexure 2, 264.

The subsidy values used in this formula for our example are:

Column 1.	Column 2.	Column 3.	Column 4.
Subsidy type	Qualifier	Monthly cost	Annual cost / household (12 * monthly subsidy)
Water subsidy 1	For each poor household with water services	R30	R360
Water subsidy 2	For each poor household without water services:	R10	R120
Sanitation subsidy 1	For each poor household with sanitation services:	R30	R360
Sanitation subsidy 2	For each poor household without sanitation services:	R10	R120
Refuse subsidy 1	For each poor household with refuse services:	R30	R360
Refuse subsidy 2	For each poor household without refuse services:	R10	R120
Electricity subsidy 1	For each poor household with electricity services:	R40	R480
Electricity subsidy 2	For each poor household without electricity services:	R15	R180

To calculate the basic service (BS) component for Cape Town for example, the number of households for each subsidy was obtained from StatsSA Census 2001⁶, and multiplied by the

⁶ Available for each municipality via the National Treasury website, or at <http://www.statssa.gov.za/census01/html/C2001DPLG.asp>

annual subsidy amount per household. The total Basic Services component amount is the sum of these subsidies, in our example, it comes to R245,404,920.

Column 1.	Column 2.	Column 3.	Column 4.
Households with an income of R800 or lower... ⁷	Number of qualifying households – Cape Town (Census 2001)	Annual subsidy / household (R)	Total Subsidy (R) (column 2 * 3)
...with water services (Water subsidy 1) ⁸	150,612	360	54,220,320
...without water services (Water subsidy 2) ⁹	33,387	120	4,006,440
...with sanitation services (Sanitation subsidy 1) ¹⁰	131,858	360	47,468,880
...without sanitation services (Sanitation subsidy 2) ¹¹	52,140	120	6,256,800
...with refuse services (Refuse subsidy 1) ¹²	161,947	360	58,300,920
...without refuse services (Refuse subsidy 2)	22,049	120	2,645,880
...with electricity services (Electricity subsidy 1)	131,288	480	63,018,240
...without electricity services (Electricity subsidy 2)	52,708	180	9,487,440
Total Basic Services component (sum, in Rand)			245,404,920

It should be noted here, that municipalities only receive basic service subsidies for those powers and functions for which they actually do have responsibility. For example, it is possible that a local municipality is not responsible for the provision of water services in the municipal area. The subsidies for water services in the local municipal area will then be allocated to the municipality that is responsible for performing the water function in that area, for example the District municipality (National Treasury, Budget Review 2005. Annexure E, p.263).

⁷ This includes households with 'no income'; with incomes between R1 – R400, and between R401 – R800

⁸ Includes households with access to piped water inside dwelling, inside yard, or at community stand within 200m distance.

⁹ Includes households with access to water at community stand at further than 200 m. distance, and 'other'.

¹⁰ Includes households with flush toilet (sewerage and septic tank), chemical toilet, or ventilated pit latrine (VIP)

¹¹ Includes households with access to pit latrine without ventilation, with access to a bucket latrine, and those with no access to sanitation at all.

¹² Includes only households whose refuse is removed by the local authority at least once a week.

10.5.2 The Institutional Support Component

Principles

There are two elements to the institutional component:

- Administrative capacity and costs; and
- Local electoral accountability: cost of maintaining councillors for the legislative and oversight role.

Plus: a base allocation in the formula that goes to all municipalities regardless of cost or size to recognise economies of scale.

Formula:

$$I = \text{Base Allocation} + [\text{Admin support} * \text{population}] + [\text{Council support} * \text{Nr. of Seats}]$$

Source: National Treasury, Budget Review 2005, Annexure 2, 260.

Values used in the formula are:

$$I = R350,000 + [R1 * \text{population}] + [R36,000 * \text{councillors}]$$

Applying the formula to the Cape Town example, we get the following:

Cape Town Example	
Population (2001 census, adjusted ¹³)	2,892,243
Number of councillors as recognized by the Department of Provincial and Local Government (DPLG) ¹⁴	200

$$I = R350,000 + [R1 * 2,892,243] + [R36,000 * 200] = R10,442,243$$

The base allocation is the same for all municipalities regardless of size, as it is assumed that larger municipalities benefit from economies of scale and thus function relatively cheaper than smaller municipalities (National Treasury, Budget Review 2005, p. 261)

¹³ Note from StatsSA: 'Data supplied to National Treasury for conversion of Census 2001 data in line with the preliminary municipal boundaries as at Dec. 2005'. Data available at: <http://www.statssa.gov.za/census01/html/DPLG/table10.xls>

¹⁴ DPLG can be contacted at 012 334 0600 (Communications Department) to provide the number of councillors for the municipality. This information seems currently not to be available on the internet.

10.5.3 The Development Component

This is a future variable, which has not yet taken effect. The variable should give effect for developmental local government objectives, beyond basic services, as envisaged in section 214 of the Constitution. Further research and consultations will take place during 2005, including a request to the FFC to recommend an approach for the component. For the moment, the value of the development component has been set at zero (National Treasury, Budget Review 2005: 262).

10.5.4 The Revenue Raising Capacity Correction

An adjustment for revenue raising capacity based only on actual revenues raised is not equitable, and may give rise to perverse incentives. Furthermore, there is no national property valuation roll available to approximate revenue raising capacity across the country. The approach for this correction therefore uses the relationship between:

- Demonstrated revenue raising capacity among municipalities that report information;
- Objective municipal information from Statistics SA to proxy revenue raising capacity for all municipalities; plus
- A 5% “tax” rate correction over the derived revenue amount.

The total amount calculated on the basis of the above factors should provide a proxy of the total revenue that would be available to the municipality.

Source: National Treasury, Budget Review 2005, Annexure 2, 262.

It is, however, not clear from the information provided in the Budget Review, how exactly the revenue raising capacity correction is arrived at (e.g. no formula is provided of how the information regarding the above factors, is combined).

10.5.5 The stabilising constraint and other considerations

The stabilising constraint provides a 70% guarantee for the indicative outer-year baseline amounts. This means that a municipal equitable share allocation should not be less than 70% of the amount that the National Treasury had indicated the municipality would receive in the previous year (MTEF planning).

Other considerations in the LGES formula are:

- Powers and Functions: these differ per municipal category;
- Balancing Allocations: because the allocations made to municipalities depend on the total envelope (vertical division) available for local government, the above allocations may not add up to the required amount (i.e. there is likely to be a surplus). An Adjustment Factor is therefore calculated to ensure that the sum of the equitable share amounts to

municipalities matches the vertical amount allocated to the local government sphere as a whole;

- Stabilising constraint ('C' in the formula below): to ensure that the stabilising constraint is met, municipalities are divided into two categories:
 - Those that require a top-up;
 - Those that do not require a top-up.

The total size of the top-up is calculated and deducted from those that do not need a top-up, in proportion to the surplus.

Source: National Treasury, Budget Review 2005, Annexure 2, 262-263.

The complete formula for the equitable share allocation then becomes:

$$\text{Equitable share (ES) allocation} = \text{Adjustment factor} * (\text{BS} + \text{D} + \text{I}) - \text{R} +/- \text{C}$$

Source: National Treasury, Budget Review 2005, Annexure 2, 262-263.

In our Cape Town example, we were able to calculate or obtain the following values for the variables in the above formula:

- Basic Services (BS) component: R245,404,920
- Development (D) component: presently set at R0 for all municipalities
- Institutional (I) component: R10,442,243

$$\text{Cape Town ES} = \text{Adjustment factor} * (244,404,920 + 0 + 10,442,243) - \text{R} +/- \text{C}$$

This gives us the following calculation for Cape Town:

However, unless the adjustment factor is obtained from National Treasury, as well as the Revenue (R) and the Top-up (C) amounts for Cape Town, it is not possible to re-calculate the exact equitable share amount that the municipality should receive.

10.6 Phasing in of new formula

The new formula is used to generate the allocations by municipality for the new baseline allocations for 2005/06, 2006/07 and 2007/08 announced in the 2005 National Budget. However, indicative allocations for 2005/06 and 2006/07 generated by the previous formula are guaranteed. Full introduction and phasing in thus only happens by 2007/08.

Source: National Treasury, Budget Review 2005, Annexure 2, 264.

Chapter summary

- The purpose of the LGES is primarily to compensate for poor households unable to pay for the services that are delivered by municipalities.
- The components of the LGES, which all provide indication of need for additional revenue, include the basic service component, the institutional support component, the development component and the revenue raising component.
- Four principles guide the LGES and include equity, allocative efficiency, the appropriate funding of spill-over effects and building the capacity of local authorities.
- The most recent LGES formula, adopted in 2005 is $\text{Grant} = \text{Adjustment Factor} * (\text{BS} + \text{D} + \text{I}) - \text{R} +/- \text{C}$.
- Although the value for BS, D, and I can relatively easily be calculated for a municipality, no formula is provided in the Budget Review for the exact determination of R and C.
- The value of the Adjustment Factor depends on the sum of the calculated amounts for the municipalities, and the total equitable share amount allocated for the local government sphere.
- This formula is in operation although allocations for 2005/06 and 2006/07 generated by the previous formula are still guaranteed.

PART IV: LOCAL GOVERNMENT IDP, BUDGET AND EXPENDITURE ANALYSIS

Part IV is the hands on section of the guide. Practical suggestions are given and action steps outlined, from defining the primary concern or problem to orchestrating an advocacy campaign. Once you have defined your priority and found the relevant budget information, it is time to begin your calculations and comparisons. In chapter fourteen, aptly titled Calculate and Advocate, you'll find six specific analysis tools to help you avoid common pitfalls and ensure that your analysis is watertight and valuable. This chapter also provides some practical ideas for citizens and community groups who want to engage with the budget process through their own initiative.

CHAPTER 11: PRACTICAL HINTS FOR LOCAL GOVERNMENT BUDGET ANALYSIS

Chapter 11 provides a step-by-step guide to budget analysis based on priority identification. It includes a list of most commonly used documents, as well as a directory of useful documents, departments and resource organisations. Despite the onus on local government to work transparently and make budget documents public, there are limitations to the availability and usefulness of the information. These are briefly discussed at the end of the chapter.

11.1 Easy steps to budget analysis

1. Define the problem (for example, no water and sanitation is provided in a specific area.)
2. Establish which other relevant parties would be interested in the issue (see also section 11.2.2).
3. Find out which government department or function is directly responsible for providing the service.
4. Get the necessary strategic and budget documentation (section 11.2) and check whether:
 - a. The service or function is mentioned as a priority in the IDP
 - b. The service or function can be found in the municipality's budget documentation, and the level of detail provided (see chapter 12)
 - c. The extent to which data analysis is possible and relevant (see also Section 11.3 on information limitations)
5. Conduct a budget analysis on the figures you have found (see chapter 13).
6. Interpret the results, draw up a report on your facts and findings, and formulate recommendations.
7. Present the results to as many stakeholders as possible.
8. Inform relevant departments / organisations of outstanding information requirements.

11.2 Available Documentation and Information

11.2.1 Municipal documents needed

- Latest Municipal Annual Report
- Latest Integrated Development Plan
- Latest Municipal Budget with (preferably) figures for the previous year, current year, next year, and the two years thereafter. For example, if we are presently in the financial year 2004/05:

- 2003/04 (previous year – Actual)
- 2004/05 (current year – Estimated expenditure)
- 2005/06 (Budget)
- 2006/07 (MTEF)
- 2007/08 (MTEF)

(It is helpful to have the budget and expenditure data for previous years).

11.2.2 Useful national and provincial documentation and departments, and other organisations

Document/Dept/ Organisation	Type of information	Available from:	When?
Constitution of South Africa (1996)	Provides all legally established arrangements pertaining to governance matters, rights and responsibilities, including finance.	http://www.info.gov.za/documents/constitution/1996/96cons13.htm Department of Justice and Constitutional Development: www.doj.gov.za Telephone: 012 - 315 1111 Fax: 012 - 357 1112 Government printers, government communication and information system: www.gcis.gov.za ;	Any time
Integrated Development Plan (IDP) – latest	Municipal socio-economic status, vision and strategic priorities, framework for development planning	From your local / district municipality: the mayoral office, IDP office, communications department or the finance department	Date available from Municipality
Annual Municipal Budget	Municipal revenue targets, and budget and expenditure allocations	From your local / district municipality: the mayoral office, IDP office, communications department or the finance department	Date available from Municipality
Municipal Annual Report	Municipal service delivery and financial performance	From your local / district municipality: the mayoral office, IDP office, communications department or the finance department	Date available from Municipality
Municipal Finance Management Act (MFMA)	Legal requirements in relation to Municipal Budget process, role-players and responsibilities, public consultation and participation, financial management, and accountability	www.ffc.co.za/about/acts/act56_03.html www.treasury.gov.za/mfma/ www.pmg.org.za/bills/040209act56.pdf Contact nr. Parliamentary Monitoring Group (PMG): Tel: (021) 465 8885 Fax: (021) 465 8887	Any time
Budget Review	Broad Overview of the Economy, Revenue, Division of Revenue & Budget - National, Provincial and Local Government Spheres	National Treasury: www.treasury.gov.za Tel : (012) 315-5944	Budget Day (Feb / Mar)

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Document/Dept/ Organisation	Type of information	Available from:	When?
		Cell: (082) 416 8416	
Budget Speech from National Minister of Finance	Budget Review in Summary	National Treasury: www.treasury.gov.za Tel: (012) 315-5944 Cell: (082) 416 8416	Budget Day (Feb / Mar)
Division of Revenue Act (DORA)(LGES Paper)	Vertical & Horizontal division of revenue, allocations for each municipality	National Treasury: www.treasury.gov.za Tel: (012) 315-5944 Cell: (082) 416 8416	Budget Day (Feb / Mar)
Estimates of National Expenditure	Expenditure and Budget Estimates for National Government Departments	National Treasury: www.treasury.gov.za Tel: (012) 315-5944 Cell: (082) 416 8416	Budget Day (Feb / Mar)
FFC Reports	Financial & Fiscal Commission's recommendations on vertical & horizontal division of revenue	Financial and Fiscal Commission www.ffc.co.za Tel: 0861 315 710 Fax: +27 11 207 2344	Before Budget Day
Intergovernmental Fiscal Relations Act (LGES Paper: 8)	Division of functions, responsibilities and relationships between the spheres of government	Department of Provincial & Local Government: www.dplg.gov.za Tel: (012) 334 0600 Fax: (012) 334 0603 E-mail: enquiry@dplg.gov.za or South African Local Government Association: www.salga.org.za / www.salga.net Tel: 012 369 8085 Cell: 083 643 1436	Any time
Inter Governmental Fiscal Review / Trends in Intergovernmental Finances	Trends in provincial and local government finances, both by sphere and by function / policy area	National Treasury: www.treasury.gov.za Tel: (012) 315-5944 Cell: (082) 416 8416	April, May or June – not every year
People's Guide to the Budget	The most important features of the budget in plain language	National Treasury: www.treasury.gov.za Tel: (012) 315-5944 Cell: (082) 416 8416	Around National Budget Day: February
Provincial Budget Statements	Provincial priorities and budget allocations	Provincial treasuries (different for each province)	About 2 to 4 weeks after National Budget

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Document/Dept/ Organisation	Type of information	Available from:	When?
			Day (March)
Provincial Growth and Development Plan	Provincial plan to address priorities in the province	Provincial treasuries (different for each province)	Annually
Strategic plan and Annual Report for Relevant Provincial or National Government Department	Annual report: the department's performance over previous year Strategic plan: the department's policies, priorities and plans for the coming year	Provincial departments (different for each province)	Annually
Information on Local Government services, acts and policies	Department of Provincial and Local Government (DPLG)	http://www.dplg.gov.za Tel: (012) 334 0600 Fax: (012) 334 0603 E-mail: enquiry@dplg.gov.za	Any time
Community Law Centre	Local Government Legislation and capacity development programmes	http://www.communitylawcentre.org.za/localgov/legislation.php	Any time
Idasa (Budget Information Service and Local Government Centre)	Information, research and capacity development on local government	www.idasa.org.za Tel: 012 392 0500 (Local Government Centre) Tel: 021 467 5600 (Budget Information Service)	
Logolink	Network of organisations working on local government issues in different countries, including South Africa	For more information you can contact the Foundation for Contemporary Research (FCR): Tel: +27 (021) 418-4173 Fax: +27 (021) 418-4176 E-mail: info@fcr.org.za Website: www.fcr.org.za	Any time
Open Democracy Advice Centre (ODAC)	Information and advice about how to access public government information; promoting transparent democracy and accountability.	http://www.opendemocracy.org.za/ Tel: 021 467 5673 Fax: 21 461 2814 E-mail: odac@opendemocracy.org.za	In case you cannot access the relevant information
Reserve Bank	Data about monetary policy, inflation, interest rates, consumer and economic data	www.reservebank.co.za Tel: 012 313-3911 Fax: 012 313-3929.	Any time
SALGA (South African Local Government Association)	Information and assistance with regard to local government transformation	http://www.salga.net Tel: 012 369 8000 Fax: 012 369 8001 E-mail: info@salga.org.za	

Document/Dept/ Organisation	Type of information	Available from:	When?
Stats SA	Statistical information about service delivery	Statistics SA www.statssa.gov.za Tel: (012) 310-8600 Fax: (012) 310-8500 Email: info@statssa.gov.za	Any time

Helpful link: http://www.dplg.gov.za/html/docs/LG_Reviews_docs.htm

11.3 Information limitations

Despite recent improvements in the availability of information on local government budgets and service delivery, there are still limitations with regard to the availability, and usefulness of the information.

The following data is currently not readily available for all municipalities:

- Unit costs of local government services (such as good costing information for outputs across a number of clearly described local contexts);
- Information on currently served populations;
- Data on service backlogs;
- Estimates of resources that local government can generate on its own;
- Revenue and expenditure projections for the entire MTEF.

Furthermore, gaps and inter-year inconsistencies in the budgeted amounts may lead to deficiencies in budget analysis results (such as absent or unclear explanations of roll-overs; or different treatment of “internal recoveries” in subsequent years).

11.3.1 Other potential information limitations

- Even if information is available, the relationship between outputs and outcomes is often problematic, and in many cases there are as yet no definitive answers as many external, contextual factors intervene in the relationship between these variables.
- The information provided in the IDP or budget may not be sufficiently updated, relevant, or presented in a useful format.
- Different information sources may contradict each other. Get as many views as possible!
- IDP and budget information may not always easily be traced back to each other due to different ways of aggregating and disaggregating data
- Possibility of unrealistic revenue projections.

- Danger of double-counting due to provincial transfers (also referred to as “trust-funds”) appearing more than once in the budget.
- Internal recoveries and amounts “charged out” to other departments are not always easy to understand and unravel. They may lead to double-counting and obscure the interpretation of analysis results.
- Budgets may contain functions and departments that were not included in the previous budget, which have to be factored out to allow meaningful comparison.
- Despite the intention to publish transparent budgets that promote improved service provision and integrated development, some municipal budgets may look more transparent at first sight than they actually are.

11.3.2 Improving information for participation, management and monitoring

You can greatly contribute to the provision of better information by communicating the following to the government department from which the information was obtained:

- Any information requirements, and how it will assist in improved government decision-making, monitoring and management; and
- Any limitations or omissions in the information that has already been consulted.

Chapter summary

- Define your priority problem or need.
- Establish who or what is responsible for providing the service to address your priority.
- Consult relevant documentation and resource organisations.
- Despite improved availability of budget information, there are still numerous limitations in terms of usefulness.
- Analyse the figures.
- Interpret the results.
- Present your findings and recommendations to as many stakeholders as possible.
- Inform government of gaps in their information.

CHAPTER 12: YOUR PRIORITIES AND THE INTEGRATED DEVELOPMENT PLAN

In chapter 12, we look at your priorities in terms of:

- Whether they are part of local government's responsibilities;
- Whether they can be found in the municipality's IDP document; and
- Whether the municipality has developed adequate performance indicators and targets for priority issues.

This is vital for ensuring that queries, feedback, research and approval with regard to priority issues are directed to the right sphere of government. It is necessary to check that priority issues are in the IDP, because if an issue is not in the IDP, it may well not be budgeted for either. Performance indicators are the basis for **performance budgeting**, and performance targets should guide budget allocations.

12.1 Are your priorities a local government function or responsibility?

The division of powers and functions indicates for which services a municipality is responsible. It is important to know which department and sphere of government to target when proposing improvements to the delivery of and budgeting for a specific service. However, as local government is supposed to be the eyes and ears of government, it is an important point of contact with regard to all government services.

Start by determining your personal, organisation's, or constituency's priority or priorities. Then check whether these priorities are a local government function or responsibility by referring to the table in section 4.1 of this guide.

If one or more of your priorities are not a local government responsibility, it will be necessary to look at the relevant provincial budget (available from Provincial Treasury) or national department budgets, which are provided in the Estimates of National Expenditure, available from National Treasury.

12.2 Your priorities in the municipality's IDP

Once you have ascertained that your priorities are within the scope of local government, check the municipality's IDP. Those of your priorities that are municipal functions should ideally appear in the IDP of your municipality. Sometimes, a priority issue may be included under a broader

municipal priority area. It is recommended that sections in the IDP outlining priority issues, are read and highlighted for better understanding and easy retrieval.

If one or more of your priorities cannot be found in the municipality's IDP, note this and inquire with the municipality's IDP Manager if and where it could be found in the IDP. If the issue of concern is not a municipal priority at all, a strategy could be developed to advocate for the inclusion of the issue in the municipality's IDP (see section 14.10 of this guide for more information on advocacy).

12.3 Performance indicators on priority issues in the IDP

If your priorities are indeed reflected in the IDP, you will need to look at the performance indicators used to measure the extent of progress in service delivery. Performance indicators are especially important for management and monitoring purposes. If progress is not measured, it is difficult to verify.

Priority issues identified in the municipality's IDP should therefore have performance indicators, and targets. If no performance indicators are found on a priority issue, enquire with the IDP office whether and where performance indicators on these priority issues are available. If there are no performance indicators at all, think about, and propose suitable indicators to measure progress on the priority issue. For example, a performance indicator for Water and Sanitation could be the percentage of households with access to water on their stand, or the percentage of households with access to a flush ("non-bucket") toilet on their stand.

12.4 The quality of performance indicators and targets on priority issues in the IDP

Once performance indicators in the municipality's IDP have been identified, the quality of these indicators can be assessed, as well as whether realistic and progressive performance targets have been set. It is not always easy to find suitable, and measurable, performance indicators for each type of service.

12.4.1 Evaluating performance indicators

It is important to ask whether the performance indicators are SMART (specific, measurable, attainable, results-oriented and time-framed)?

- "Specific" means that the indicator does indeed measure the extent (and possibly the quality) to which the particular service is delivered.

- “Measurable” means that it is possible to measure the aspects of the indicator.
- “Attainable” means that is realistically possible to achieve the performance target set. If last year’s target was not met, and this year’s target is very much higher than last year’s, one may question whether the target is attainable.
- “Results-oriented” refers to whether progress is planned. This year’s target should therefore be higher than last year’s achievement, until 100 % is achieved.
- Targets require that a time has been set for the achievement of the target. It makes a huge difference whether the target is to be achieved by the end of next year, or by the end of 10 years.

12.4.2 Performance indicators table

A sample table to assess performance indicators on a priority issue is provided below:

Priority:							
Performance Indicator	<i>Specific?</i> (Y/N)	Can it be <i>Measured?</i> (Y/N)	What was the target for last year? (baseline)	What is the target for this year?	<i>Achievable?</i> Was last year’s target reached, and is it likely that this year’s target will be reached?	<i>Results-oriented?</i> Progress planned compared to last year? (Target)	<i>Time:</i> When is the deadline?

12.4.3 Performance indicators case study

In municipality A, the MTEF key performance indicators and key measurable objectives (KMO's or performance targets) for provision of water supply infrastructure have been set as:

- Key performance indicator (KPI): Number of people with access to water (RDP standard, within 200 m. of dwelling)
- Baseline (no year provided): 558 428
- Key performance objective (target) for 2005/06: 697 314
- Key performance objective (target) for 2006/07: 836 200
- Key performance objective (target) for 2007/08: 975 086.

In municipality B, the MTEF key performance indicators and KMO's / targets for provision of water supply infrastructure have been set as:

- KPI: Reduction in infrastructure backlog
- Baseline (not provided):
- Objective: 10%

The table below shows how performance indicators have been applied to the two case scenarios:

Priority: Water Supply Infrastructure (Examples)							
Performance Indicator	Specific? (Y/N)	Can it be Measured? (Y/N)	What was the target for last year? (baseline)	What is the target for this year?	Achievable? Was last year's target reached, and is it likely that this year's target will be reached?	Results-oriented? Progress planned compared to last year? (Target)	Time: When is the deadline?
Municipality A: "Number of people with access to water (at RDP standard, within 200 m. of dwelling)"	YES, it refers to the type of services to be delivered, namely water and the quality (RDP standard).	YES, the unit of measurement is specified. Progress can be measured if the necessary research (e.g. survey) is done and a database is maintained.	558 428	697 314	We cannot derive from the information provided what last year's target was, and whether it was reached.	With 138 886 additional people to be provided with access to water -about 40,000 households to be connected. The target is progressive.	As a target is provided for each year, the deadline for each target to be achieved is the end of the relevant year.

						Ideally, we should be able to derive from the information provided how much this contributes to reducing the water infrastructure backlog.	
Municipality B: "Reduction in infrastructure backlog"	NO, this indicator is too general – does not refer specifically to water supply services.	NOT on the basis of the information provided; the extent of the current backlog is not indicated. Furthermore, it might be very difficult to measure the 'reduction infrastructure backlog in general'. Instead, it would be easier to measure the size of the water services backlog, for example in terms of the number of households that still need to be connected to the water grid.	It is not provided	10%	It is not possible from the information provided to assess whether the target is achievable – as no baseline information is given.	One cannot conclude with certainty the target of 10% means a 10% reduction in the infrastructure backlog. Since we do not know how much the water supply infrastructure backlog is at present (perhaps there is no backlog at all?), it is difficult to estimate the extent of the progress.	No date for achievement or completion of the objective has been provided. This might mean that the target needs to be reached only by the year 2012.

12.4.4 Making sense of the information

Municipalities may use different terms for their key measurable objectives. Terms that are frequently used are performance objectives, performance targets or service delivery targets.

The measured or actual performance value in the year preceding the budget year is generally taken as the baseline. The baseline may also be the measured performance value from two years back, as the actual values for the preceding year may not yet be available because the financial year has not yet been completed. Municipalities could improve the usefulness of performance targets by indicating for the preceding year what the planned progress was, and what actual progress was achieved. However, baselines are currently not always provided in municipal IDP's, which might make it difficult to assess planned progress in reducing backlogs. If they are provided, you often have to get them from the analyses in another section of the document, which does not facilitate easy assessment.

Ideally, key measurable objectives or targets should be indicated for each year of the MTEF, so that each KMO is time-bound. This assists in estimating what progress the municipality is planning to make in service delivery over the next three years. The idea behind a performance indicator and targets is that these should provide citizens with useful insight regarding the progress planned in service delivery. Although the "number of households provided with service X" is a good indicator, providing additional information on the "percentage of households in the municipality provided with service X" helps to see the extent of progress in relation to the backlog.

It can be handy if the municipality provides more than one key performance indicator for a specific function. For example, for water supply infrastructure, one could have the following performance indicators:

- The number (or percentage) of households with access to water;
- The number of km's of water system pipeline that is well-maintained; and
- The number of additional litres or cubic meters (capacity) of water supply provided.

In this regard, it is important for the municipality to focus on providing those indicators and targets that are most relevant and critical in terms of service delivery. Although "number of meetings held" can be an internal management process indicator, provision of such detail may clutter performance information for the public.

12.4.5 Other questions that can be asked in relation to the quality of performance indicators are:

- Are the performance indicators and targets in the IDP understandable? i.e. do they provide a good indication of what will be done about the priority issue?

- Is the progress planned on the priority issue satisfactory?
- Are the performance indicators providing any insight on equity in service delivery (e.g. geographic location; population group, etc)?
- Are the performance indicators referring to the quality of the service to be provided?
- What would the budget implications of the stated performance targets be?

Note that increased targets do not necessarily require a proportional increase in budgets. Often, economies of scale can be realised when more of a service is delivered (the same administrative office and personnel might be used, keeping indirect costs constant). Economies of scope may apply as well. This means that the combined efforts from different departments or on different activities add up to more than the sum of the results. Different approaches to service delivery may also be more efficient than others. For example, it is generally more efficient to maintain infrastructure properly, than to pump vast amounts of money into fixing break-downs. Similarly, ensuring that garbage is collected regularly everywhere in the municipality may lead to substantial savings in other areas of environmental health (for example saving costs on cleaning sites that have been used for illegal dumping).

Chapter summary

- Check that your priority issue falls within the scope of local government responsibilities.
- If so, check that your priority issue is found in the municipality's IDP.
- If so, check that there are performance indicators to monitor the progress in delivering that particular service.
- If so, check that the indicators are SMART.

CHAPTER 13: READING LOCAL GOVERNMENT BUDGETS AND INTEGRATED DEVELOPMENT PLAN DOCUMENTATION

Chapter 13 explains how most municipal budgets are organised and where different expenditure items relating to priority issues and problems can be found.

13.1 Linking the IDP and the Budget

The general principle in constructing a municipal budget is that the developmental policy proposals that are contained in the IDP of the municipality must be costed and budgeted for.

Having looked at the municipality's IDP, you may want to verify whether priority issues have also been budgeted for in alignment with the IDP documentation. This information should, at least to some extent, be found in the municipality's budget.

13.2 Overall structure of the municipal budget

Municipal Budgets are written documents, which show the municipality's sources of revenue, and its expenditure plans. They are classified into two basic parts, an operational budget and a capital budget.

Capital expenses refer to money spent on durable items with a life span of at least one year, such as machinery, equipment and buildings.

Operating expenses refer to money spent on items that are 'consumed' during a year, including salaries, consumables and administrative items.

Budgets are presented in the form of a series of tables with figures. These tables provide income and expenditure information to varying degrees of detail, ranging from consolidated summaries to detailed breakdowns of the budgets for each department, functional area, and programmes.

In the tables, actual expenditure figures are often provided for the previous financial year (already completed), while original budget and adjusted budget figures may be provided for the current financial year. Budget figures should be provided for the three years of the Medium Term Expenditure Framework (MTEF).

Medium Term Expenditure Framework (MTEF)

Municipal budgets, like provincial and national budgets, are developed to cover a three-year budget period, which forms the medium term planning framework. Budget tables will therefore show figures for the actual fiscal year, plus for the next two outer years. The outer years are indicative amounts, which is why the framework is revised and adjustments are made every year.

The value of a medium term planning framework for budgeting is that it

- Makes budget plans more predictable;
- Can be aligned to the longer term plans of the IDP; and
- Highlights priority areas by showing whether expenditure is increasing or decreasing.

Because the financial year (or 'fiscal year') of a South African municipality starts in June and runs to May in the next year, a financial year is often denoted as, for example, 2004/05. This is to indicate that the financial year starts in 2004 and ends in 2005.

13.3 Towards a format for South African municipal budgets

National Treasury aims to reach a stage where all South African municipalities use a similar format for their budgets. This should facilitate retrieving information from budgets, as well as enabling some form of comparison between budgets. However, the differences between municipalities' budget formats is still significant at the time of writing this guide.

When an annual budget is tabled, not only must its figures be presented, but in terms of sections 17 and 24 of the MFMA, the following documentation should also be presented:

- Draft Resolution;
- Measurable performance objectives for the revenue from each source and for each votes in the budget;
- Projected cash flow;
- Proposed amendments to the IDP;
- Budget related policies;
- Financial and funding plan;
- Particulars of municipal investments;
- Particulars of proposed allocation or grants by municipality to entities;
- Proposed salaries and allowances of:
 - Political office bearer and councillors;

- Municipal manager, chief financial officer, each senior manager;
- Each member of entity's board of directors;
- The chief executive officer and each senior manager of entity.

13.4 Financial and funding plan

It is important to obtain information regarding the envisaged financial viability and projected expenses and revenue over the medium to long term. For example, how deficits will be reduced, whether and how financial performance targets are achieved, financial projections and funding plans (how sufficient funds will be raised or borrowed to pay for expenditures). Important questions to pursue here are:

- Does the municipal budget have a financial and funding plan?
- What are the main implications or most important developments according to the municipality's financial and funding plan?
- Are the terms that are used understandable? The Budget Dictionary at the end of the Guide provides explanations or descriptions of some of the terms. Alternatively, Idasa's Budget Information Service, or the municipality's budget or accounting office could be contacted.

13.5 Medium-term Budget Framework

This section of the municipal budget would include the following:

- Outline of how the budget process developed;
- Summary of Consolidated Revenue and Expenditure for the municipality;
- Summary of Operating Medium-Term Budget; and
- Summary of Capital Medium-Term Budget.

Expenditure information can be further broken down by programme, function or department (Programme Classification), as well as by line item or "type of input" (Standard Item Classification). Line items for operating expenditure may include salaries, maintenance, payment of interest (capital charges); line items for capital expenditure could include buildings, machinery and the like.

Revenue information is mostly provided by source, which may, particularly in the case of conditional grants, also provide insight into the potential application of the revenue.

13.5.1 Looking at total revenue and expenditure

The budget surplus (expenditure is less than revenue) or deficit (expenditure is higher than revenue) can be found by subtracting expenditure from revenue for a given year.

Questions to pursue with regard to total (consolidated) revenue and expenditure, are:

- In the municipality's budget, is the consolidated (total) revenue planned to be more, the same, or less, than consolidated expenditure?
- Is the financial position of the municipality projected to improve or to deteriorate?

Total Municipal Revenue & Expenditure						
	Actual Result	Budget	Adjusted Budget	Budget	Budget	Budget
R'000	2003/04	2004/05	2004/05	2005/06	2006/07	2007/08
Revenue						
Expenditure						
(Deficit) / Surplus						

If the following is indicated in the municipal budget table:

R'000: you need to multiply each budget figure in the table by a thousand Rand to get the actual budget amounts.

R'000 000: you need to multiply the figures in the table by a million Rand to get the actual budget amounts.

13.5.2 Looking at total operating and capital expenditure

The table below provides an example of a total operational and capital expenditure budget for the 2003/04 financial year and the estimated budget for 2004/05. You can compare this with how these expenditures are presented in your municipal budget.

Table: Total Budget Expenditure

R	2003/04	2004/05 Budget Estimate
Operating Expenditure	314,450,459	398,866,733
Capital Expenditure	68,284,850	39,006,000
Total Expenditure	382,735,309	437,872,733
Operating Expenditure	82%	91%
Capital Expenditure	18%	9%
Total Expenditure	100%	100%

Source: Ugu District Municipality. 2003/04 Budget; 2004/05 Budget p 33,70.

You will notice that it is possible to make simple calculations with these figures, like the percentage of the total budget for operational and capital expenditure. In the case of Ugu municipality we see that 82% of the budget is allocated to operational expenditures, and 18% to long term infrastructure investment.

Note:

To calculate Operating Expenditure as percentage of total expenditure, divide the Operating Expenditure amount by the Total Expenditure amount and multiply the result by 100. For example:

$$314,450,459 / 382,735,309 * 100 = 82\%$$

The same calculation can be applied to Capital Expenditure:

$$\text{Ugu Capital Expenditure} / \text{Ugu Total Expenditure} * 100 = 18\%$$

Learning how to do calculations is covered in more detail in chapter 14

In order to assess what division (ratio) of operational and capital expenditure is desirable for a given municipality, a number of factors need to be taken into account, such as responsibilities of the municipality, infrastructure backlogs and large-scale capital investment plans.

13.6 The Operating Budget

13.6.1 Operating Expenditure by programme, function or department

Budget figures are broken down even further to provide operational expenditure information for the different programmes, departments (votes) or functions. The table below provides some detail on the operational expenditure for the various departments (votes) of Ugu district municipality. From the allocations in the table, it is possible to pick up the services on which the largest amounts of money are spent. This could give some indication of priority.

Table: Summary of Operating Expenditure by Vote

R	Projected Actual	MTEF		
		2003/04	2004/05	2005/06
Levies: Expenditure	18,745,902	39,740,383	33,215,815	35,873,080
Grants: Expenditure	141,374,090	175,257,760	164,820,000	165,479,000
Water: Expenditure	121,113,767	134,387,713	141,295,230	150,122,007
Sanitation: Expenditure	33,216,701	49,480,875	50,151,650	52,611,078
Municipal Manager's Office	6,043,402	7,714,302		
Mayoralty		5,551,986		
Councillor's Budget		3,642,480		
Department of Corporate Services	14,795,709	16,783,282		
Department of Treasury	11,401,374	10,649,143		
Department of Planning & Environment	47,112,761	13,448,584		

Source: Ugu District Municipality 2004/05 Budget

National Treasury, in their overviews of municipal budgets¹, generally uses the following reporting items for operating expenditure budgets:

- Salaries, Wages and Allowances
- Electricity Bulk Purchases
- Water Bulk Purchases
- Sewer Payments
- "Other"
- Repairs and Maintenance
- Interest and Loan Redemption
- Contributions to Special Funds
- Provisions for Working Capital
- Gross Budgeted Expenditure
- "Less: Amounts Reallocated" (for example, funds distributed to local municipalities or other entities are subtracted from Gross Budgeted Expenditure to arrive at Total Expenditure)

Ideally, your municipality would report in a similar way on these items, to enable analysis of budget data between different years and municipalities.

13.6.2 Operating Expenditure – by line item

¹ For example in the "Local Government Tables" in the Appendices to the Division of Revenue Bill, or the Intergovernmental Fiscal Review Documents – available at www.treasury.gov.za.

Operating expenditure can also be classified by type of expenditure (line item or standard classification), providing expenditure detail for example on:

- Employee related costs: wages and salaries, and social contributions;
- Remuneration of councillors;
- Bad debts;
- Depreciation;
- Repairs and maintenance – municipal assets;
- Interest expense – external borrowing;
- Bulk purchases;
- Contracted services;
- Grants and subsidies paid;
- General expenses (other);
- Loss or gain on disposal of assets; and
- Internal transfers.

This classification gives detail on the operational inputs that the municipality is planning to use to implement its services, including labour, contractors, administrative consumables, bulk electricity or water, etc. It also provides insight into the amount of funds allocated for maintenance of municipal buildings and infrastructure (such as roads, sewerage pipes, electricity cabling etc.) to prevent breakdowns, as well as how much is spent on interest payments on borrowed funds.

13.6.3 Operating Revenue – by Source

As stated earlier, municipalities by and large generate most of their income. This could range from 35% to over 95%. Own revenue may come from service charges, user fees and levies. The balance of the revenue comes from provincial and national sources, in the form of an equitable share and conditional grants.

The table below provides an example of an operational income budget by source for a district municipality. The operational income by source may provide insight into the financial sustainability of the municipality's operations. For example, if the majority of the municipality's operating revenue comes from external grants, it may indicate that the municipality is to a large extent dependent on other sources of income to be able to provide basic services to its citizens. The source of funding may also say something about the way in which the amounts are to be spent. For example, a financial management grant is supposed to be used to improve the financial management of the municipality, and not to pay for, example, the implementation of a community safety project.

Table: Summary of Operating Income Budget 2003/04 – 2004/05

Nominal	2003-04 Budget	2003-04 Expected	2004-05 Budget
INCOME			
District Municipality Levies	66,000,000	66,000,000	73,000,000
Interest and Penalties	4,480,000	4,480,000	6,500,000
Sundry Income	5,075,000	5,075,000	4,500,000
Financial Management Grant	2,000,000	2,000,000	1,000,000
Municipal Support Grant	3,075,000	3,075,000	3,175,000
Total	80,630,000	80,630,000	88,175,000
<i>NET OPERATING SURPLUS</i>	<i>20,742,926</i>	<i>42,758,779</i>	<i>19,449,259</i>

Source: Capricorn District Municipality

Note: Capricorn's equitable share is not reflected as operational revenue. In actual fact, CDM's equitable share is shown in the capital budget. This would indicate that CDM has decided to devote its equitable share to infrastructure development.

National Treasury generally uses the following reporting items (sources) when providing overviews of municipal operating income budgets:

- Regional Levies
- Property Rates
- Electricity
- Water
- Sanitation
- Refuse Removal
- Subsidies / Grants
- Other Income

If operating income grants are broken down further by individual grant, such as Financial Management Grant, Equitable Share, more insight is provided in the purpose for which the grants are to be used.

13.7 The Capital Budget

13.7.1 Capital Revenue – by Source of Finance

In their overview tables for municipal budgets National Treasury indicates the following, relatively broad sources of capital finance:

- Grants and subsidies (includes the equitable share)
- External Loans
- Internal Income (own revenue)

- Donations
- Other

The table below shows the Grant Income budget for Ugu municipality by source; it includes both capital and operating income. Some municipalities provide detailed breakdowns of how each grant will be spent. As can be seen in the table below, revenue by source also provides some insight into how the allocated funds may be used. However, the table below does not indicate which of the grants will primarily be used for capital expenditure. In this example, the (conditional) grants which should certainly be principally used for capital expenditure are:

- Building for Sports and Recreation Programme Grant - for sport and recreational facilities in disadvantaged communities;
- Consolidated Municipal Infrastructure Grant (CMIP) – to provide infrastructure, community services and facilities for low income households;
- Municipal Infrastructure Grant (MIG) - to address backlogs in infrastructure for municipal services.
- Department of Water Affairs and Forestry Projects Grant

The apparent decline in some of the grants in the example table below (for example, CMIP and DWAF grants) in 2004/05 might be due to the inclusion of these grants in the MIG from 2004/05 onwards. Ideally, the budget documentation should provide some information regarding the reasons behind significant budget declines or increases. Otherwise it is not clear to the reader whether such changes are due to a policy or strategy change, a shift of functions or responsibilities, efficiency changes, project completion, or lack of information. Furthermore, acronyms used in municipal budgets might be confusing if no explanation is given of what it stands for.

Table: Breakdown of grant income

R	Projected Actual	Budget	Nominal Growth 2003/04 - 2004/05
	2003/04	2004/05	
Total Grant Income	104,137,270	161,809,176	
Contribution from Grant Reserves		4,523,137	
Contribution from ES Reserve	600,000	22,974,039	3729%
2004/05 ES (Schedule 3)	33,674,000	38,680,000	15%
Building for Sports and Rec. Prg.	2,960,000	3,825,000	29%
Municipal Infrastructure Grant (MIG)		91,807,000	
Committed unspent funds & interest capitalisation	4,500,000	0	-100%
Water Services Operating Subsidy	0	0	

Mun. Systems Improvement Prg Grant	3,635,000	0	-100%
CMIP Grant (Water projects only)	28,089,613	0	-100%
DWAF Projects	26,294,000	0	-100%
DIMS	150,000		-100%
Tourism	140,000		-100%
LG Financial Management Grant	1,000,000		-100%
Interest on Investments	3,094,657		-100%
Total Grant Income	104,137,270	161,809,176	55%

Source: Ugu District Municipality 2004/05 Budget p. 46; own calculations

13.6.2 Capital Expenditure – by function, department or programme

Capital expenditure is often provided by function, department, programme or activity. Note that in this example, figures are provided for only one year, whereas ideally, figures for the entire MTEF (the three years in advance) should be provided. Capital expenditure by programme or department provides you with insight into the types of services in which the municipality makes most long-term investments (buildings, equipment, pipelines, machinery, etc.).

For example:

Capital Budget 2004/05 Distribution per Category (R)

Water	53,406,513
Roads	4,200,000
Transport	6,131,796
Community Services	12,486,295
Sanitation	11,716,920
Capacity Building	2,472,700
Buildings	8,300,000
Economic Development	7,644,500
Operations and Maintenances	2,000,000
Special Focus	3,000,000
Transfer to Local Municipalities	2,637,500
Planning	7,500,000
Electricity	3,367,125
TOTAL	124,863,349

Source: Capricorn Budget

National Treasury provides the following items in their summary overview of the municipal capital expenditure budgets:

- Land and Buildings
- Roads, Pavements, Bridges, Stormwater
- Water reservoirs and reticulation
- Car Parks, Bus Terminal, Taxi Ranks
- Electricity Reticulation
- Sewerage Purification and Reticulation
- Housing
- Street Lighting
- Refuse Sites
- Infrastructure, 'other'
- Community Projects / Assets
- Assets
- Specialised Vehicles

If your municipality provides a summary of the capital expenditure budget in a similar format, it enables analysis concerning different years and municipalities.

13.7 Budget allocations relating to your priority issue

Presently, different municipalities provide varying degrees of detail and aggregation (summaries) in their budgets, and not all municipalities provide figures for each year of the MTEF. Despite the budget breakdowns provided in a municipal budget, it is thus not always easy to locate the amounts that are related to a particular issue of interest.

For example, can you find all budget allocations relating to your priority issue in the municipality's budget? The required budget allocations for each year of interest, or the required level of breakdown (e.g. by function, by geographic area, by project, by activity, by population group) for a specific purpose may not always be found. In such cases, the municipality's budget office or chief accounting officer / financial manager can be contacted to find out whether and where the amounts are available, and to ask for additional information to be provided.

The IDP of most municipalities also provides more detail regarding planned spending on particular projects in specific Wards or areas in the municipality.

Chapter summary

- Municipal budgets are written documents, which show the municipality's sources of revenue and its expenditure plans.
- Sources of revenue and expenditure plans are classified in two basic parts, the operational budget and the capital budget
- Budget information is provided in a series of tables, reflecting actual expenditure for the previous year, estimated figures for the current financial year and ideally, for the following three years, referred to as the Medium Term Expenditure Framework (MTEF).
- Budgets should be accompanied by a financial and funding plan, which need careful scrutiny to assess the municipality's long term thinking.
- When looking at the MTEF, it is important to consider total revenue and expenditure as well as total operating and capital expenditure.
- When looking at the operating budget, it is important to do so by examining expenditure information for the different programmes, departments (votes) or functions.
- Examining operating revenue by source will provide insight into the municipality's financial sustainability.
- When looking at the capital budget, you will again look at capital revenue by source and at capital expenditure by function, department or programme.
- Remember, despite all the breakdowns provided, it is not always easy to locate the figures related to your particular priority. If, after all your analysis, you are still none the wiser, contact the municipality's budget office.

CHAPTER 14: CALCULATE AND ADVOCATE!

Chapter 14 is all about calculations and advocacy. To calculate, six calculation tools are outlined to best analyse the budget figures appropriate to your priority. To advocate, practical suggestions are given for using the findings to further your cause.

14.1 Why analyse government budgets?

After identification of the budget figures in relation to the priority issue, you can analyse these budget figures in a number of ways. But first it is advisable to take a moment to reflect on the following questions:

- What do you expect to be able to see from budget analysis?
- How will this improve your understanding of the priority issue?
- How will this enhance the argument for the priority issue?

The answers to these questions can provide guidance regarding what budget breakdowns to look for, what calculations to use and how to interpret and use the results of the calculations.

Analysing budgets does not stop with doing calculations on a number of figures. The outcomes of calculations may tell you for example how much percent a budget grows, or declines, but they do not provide an explanation of the reasons behind such changes. Calculations on budget figures generally raise additional questions. Obtaining and verifying the explanations and reasons behind the figures is as important as the budget figures themselves. The latter information might be found in the documentation accompanying the municipal budget, in the IDP, or in strategy or policy documents. It may also be fruitful to contact your municipality's municipal manager or the mayoral or finance / treasury department. As we saw above, some budget changes (e.g. in conditional grants, equitable share allocations) are primarily driven by provincial or national policies and strategies, so further explanation might be obtained from the relevant government department.

Typical questions that budget calculations may help you answer – provided adequate figures and additional information can be obtained:

- Is this year's budget amount allocated for sanitation sufficient to cover the costs of providing the planned number of households with sanitation facilities according to RDP standard?
- How much has been budgeted per person (per capita) for new sports facilities in our ward compared to another ward that already has sports facilities?
- If in the municipality's IDP the eradication of the backlog in water services is mentioned as the highest priority; is this also reflected in the share of the total budget that is allocated for water services? I.e. do water services and water infrastructure receive the largest share of the budget compared to other functions?
- How many households (if any) are set to benefit from the budget for new electricity connections? How does this compare to last year? How does this reduce the electricity backlog?
- How much has the municipality budgeted for the salary and benefits of the municipal office bearers, and how does this compare to national prescriptions in this regard²?
- If the municipality has revised its IDP, stating that it aims to increasing its focus on local economic development, by how much percent is the amount budgeted for local economic development growing per year? Does this growth cover inflation and allow for increased spending on local economic development?
- If a municipality or department did not spend its entire budget for the year, or if a municipality or department overspent on its budget, what are the reasons for this under / over spending? How will this impact on service delivery?
- If a municipality's or department's total budget increases strongly, while in previous years a large proportion of the budget was not spent; what plan does the municipality or department have to ensure sufficient capacity to spend the budgeted amount?

There are numerous other important questions to be asked with regard to budget figures. Often, there may be justifiable reasons for apparent deviations or changes in the budget. It is important that these are clarified and explained to monitor and ensure that impacts or changes in service delivery impact positively on citizens' well being.

14.2 Ratios, rates and inflation

Provinces, municipalities, departments and programmes differ in size. Hence, one cannot compare amounts straight away. Therefore, the information is often converted to rates or ratio's. For example:

² Prescribed salary, benefit and allowance information for local government officials is available at: <http://www.dplg.gov.za/html/docs/PDFDocuments/a20-98.pdf>.

- Share of the total;
- Percentage growth in budgets;
- Per capita amounts;
- Proportion of the budget that has been spent.

Inflation reduces purchasing power of the Rand over time. When comparing allocations in different years, it is necessary to convert nominal amounts into real amounts, adjusting for inflation.

When comparing rates and ratios, always be careful not to oversimplify. Different municipalities, projects and programmes may have different service delivery components, specific needs and different cost-structures (for example due to geographic distances).

Note:

It is often most convincing to apply a few calculations that cover two or three years, and give due consideration to interpretation of the results, and the implications thereof for the priority issue.

Doing a whole lot of calculations without good interpretation will not be as convincing!

14.3 Overview of the tools

There are six tools that you can apply to budget figures to facilitate your understanding, analysis and comparison of budget figures.

Tool 1: Comparing Nominal budget amounts to costs

Adequacy: Is the allocation enough?

Tool 2: Converting nominal budget amounts to Real amounts

Adjusting for inflation: Does the allocation keep up with inflation?

Tool 3: Percentage change

Progress: Are the allocations increasing or decreasing over time?

Tool 4: Percentage share of the Total

Commitment: is the issue / programme a priority?

Tool 5: Per capita budget amounts

Equity: Do the allocations promote (geographical) equity?

Tool 6: Actual Expenditure as percentage of the Budget

Efficiency: Are the budgeted amounts spent?

14.4 Tool 1: Comparing Nominal budget amounts to costs

How much is budgeted for an issue or programme in nominal terms can indicate if the allocation is enough (adequate), compared to the cost of intervention.

Normally, the nominal amount is the amount given in the budget document. As we saw earlier, it may be difficult to find the amounts that are spent on your priority area in the municipal budget.

You require the following information:

- Budgeted (nominal) amount for a specific activity or programme from the budget or department.
- Output targets for the activity or programme for the relevant years.
- Costing information for the specific activity or programme. For example, average costs per unit of output, or the costs of each activity or input within the programme.

Calculation Steps:

1. Calculate the Required Budget based on the costing information, for example by multiplying the number of outputs by the average cost per unit of output.
2. Compare the actual amount that has been budgeted to the Required Budget amount to see whether the actual budget is sufficient.

Simple example:

1. Budgeted amount for Programme A in 2005/06: R 40,000
2. Performance target for Programme A in 2005/06: 3 houses built
3. Cost per house: R 18,000
4. Required Budget = Total Cost = $3 * 18,000 =$ R 54,000
5. Compare the Actual Budget to Required Budget:

The Actual Budget is R14,000 less than the Required Budget. These means that, unless major efficiency improvements can be achieved in the building, only 2 complete houses can be built. The budget is insufficient to complete the 3rd house.

14.5 Tool 2: Converting nominal amounts to real terms

An amount 'in real terms' means that it has been adjusted for inflation to reflect the purchasing power of the amount compared to other years.

Note on inflation: As you may well have noticed during shopping, 1 Rand this year buys you less than 1 Rand last year, because goods and services have become more expensive (the buying power of your rand has decreased). This makes straight comparison of amounts between different years invalid.

If budget figures are converted to 2004/05 Rands, 2004/05 is called the base year. This means that the amounts for each different year are converted to the rand value in 2004/05 so that the amounts can be compared after adjustment for inflation.

Steps:

1. Get the nominal budget amount for each year you want to consider.
2. Get the deflator for each year you want to consider (available from National Treasury or Idasa, Budget Information Service).
3. Divide each nominal allocation by the deflator for that year.

Simple Example:

In the table below, the real amount in 2005/06 =

$$R300 / 1.042 = R288 \text{ (million!)}$$

Table: Example - Conversion to real terms

Budget	2003/04 Actual	2004/05 Adj. Budget	2005/06 Budget	2006/07 MTEF	2007/08 MTEF
	<i>R'000 000</i>	<i>R'000 000</i>	<i>R'000 000</i>	<i>R'000 000</i>	<i>R'000 000</i>
Nominal amount	100	200	300	400	100
Deflator	0.960	1.000	1.042	1.097	1.155
Real amount	104	200	288	365	87

Note: in the example above that the nominal R100 in 2003/04 is worth R104 (in 2004/05 Rand), while nominal R100 in 2007/08 is worth only R87 in real terms (2004/05 Rand). This means that with the same nominal R100, you could buy more goods and services in 2003/04 than in 2007/08.

The deflator for the base year is always 1. The nominal and real amount are thus always equal in the base year.

As inflation is normally positive, conversion of budgets to real terms before the base year 'inflates' the amounts, while the budgets after the base year are deflated (i.e. they become less in real terms).

14.6 Tool 3: Percentage change in the budget over time

Calculating the percentage change in the budget over time helps to monitor progress and to see whether government's response on this issue is improving. When assessing whether government is progressively rolling out services of a particular type, it is preferable to consider the change (adjusted for inflation) in the real budget over time. This change is generally expressed as a percentage of the first year's real budget.

Calculation Steps:

1. Take the real budget figures for one issue or programme, for two years (for calculation see section 14.5).
2. Calculate the difference between the amount in year 2 and the amount in year 1:
$$\text{Amount year 2} - \text{Amount year 1}$$
3. Divide the result from step two by the Amount in year 1
4. Multiply the result from step three by 100 to get the percentage

In brief:

$$\text{Growth rate} = (Y2 - Y1) / Y1 * 100 = \dots\%$$

Simple Example:

Real Amount 2005/06 (year 1) = R 288

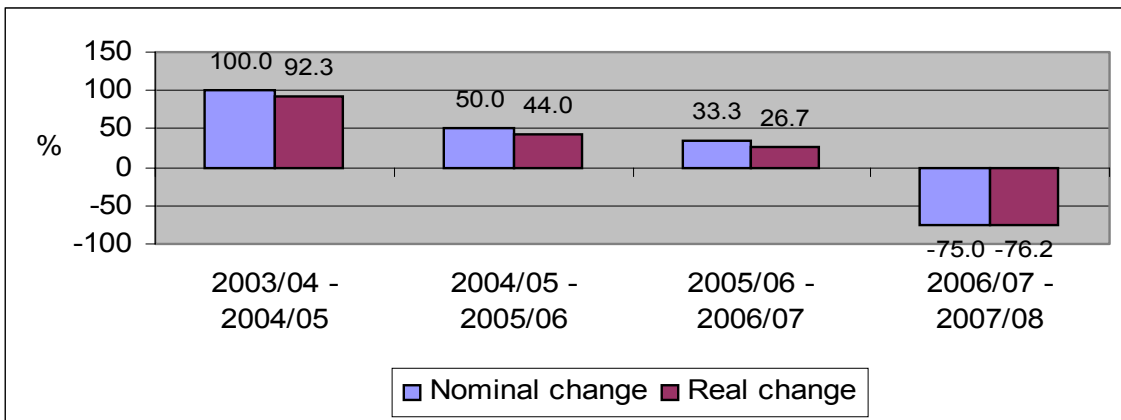
Real Amount 2006/07 (year 2) = R 365

Real change between Y1 and Y2 =

$$(365 - 288) / 288 * 100\% = 26.7 \%$$

The percentage change can also be calculated on nominal budget figures, but it has the disadvantage that inflation has not been taken into account. The graph below shows nominal and real growth rates for example budgets.

Graph: Differences in real and nominal growth rates



Own calculations.

Consider the following questions:

- How would you explain in the graph above that the real change between 2003/04 and 2004/05 is lower than the nominal change?
- How do you explain that it is possible that a budget shows positive change in nominal terms, while the real change is negative?
- Is it possible that a budget shows no nominal change at all (nominal % change = 0%), while it decreases in real terms?

Note:

An increase (decrease) in the budget for an issue does not necessarily imply that service quantities are increased (decreased). A higher (lower) budget may also imply an increase (decrease) in quality, or a decrease (increase) in efficiency or costs of the services.

When interpreting the percentage change calculation results in terms of the municipality's progress in rolling out services in relation to the issue of concern you can look at:

- How the change in the budget for the priority issue compares to the change in the performance target.
- How the change in the budget for the priority issue compares to the change in the Total Municipal Budget or Total Operational or Capital Expenditure.
- How the change in the budget for your issue compares to the change in other programmes or votes.
- Any additional information you require in order to analyse why certain programme allocations may have been increased / decreased, such as national, provincial and municipal policy and strategy documents, annual reports, information on special projects, performance targets or increases in numbers of beneficiaries, etc.

Averaging percentage change rates:

If you have more than one percentage growth rate, for example changes between three subsequent years, you can calculate the average of these growth rates. This is called the average annual growth rate over the period.

It provides you with a summary of growth rates. It can be useful when a large number of growth rates are considered, for example when looking at changes between more than four years.

You do this by summing the growth percentages, and dividing the result by the number of growth rates you have summed. In brief:

$$\text{Average Annual Growth rate} = (g_1 + g_2 + \dots + g_n) / n$$

Where:

g = growth rate

n = number of growth rates

14.7 Tool 4: Percentage share of the Total

In order to determine whether an issue or a programme is a government priority, you can look at how the budget for this purpose compares to resources spent in other areas. It may help to:

- Determine what government's priorities are as stated in budget;
- Ask if stated policy priorities match priorities in budget;
- Determine if government is keeping its promises (policy commitments).

This calculation can be done either on nominal amounts or real amounts. The results should be the same.

Information Required:

1. Budget amount for the issue of concern
2. Total municipal budget for the same year(s)
3. If you want to compare percentage shares of the budget between different issues or programmes, then you will also need budget amounts for other issues or programmes.

Calculation Steps:

1. Divide the amount budgeted for your issue by the Total Municipal Budget
2. Multiply the result of Step One by 100 to get the percentage

In brief:

$$\text{Percentage share of total} = \text{Amount} / \text{Total Budget} * 100 = \dots \%$$

You can also consider your issue as a percentage of the Total Capital Budget, as percentage of the Total Function's or Vote's Budget, etc. as long as the Budget for your issue is a smaller part of the Total Budget.

Simple Example:

Housing is documented in the IDP (2005: Chapter 3) as a priority area for Johannesburg. How is this reflected in the share that this Vote takes of the Total municipality's budget in 2005/06?

2005/06 Budget amount for Housing = R447,101,000
2005/06 Budget for Total Municipal Expenditure = R16,134,498,000

Housing as percentage share of total Municipal Expenditure = $447,101,000 / 16,134,498,000 * 100\% = 2.7\%$

The 2005/06 budget for the Arts, Culture and Heritage Vote in the 2005/06 Johannesburg budget is R45,743,000.

- Calculate the percentage share that Arts, Culture and Heritage gets from the Total 2005/06 JHB municipal budget.
- When comparing the Housing allocation to the Arts, Culture and Heritage allocation, what can you say in terms of prioritisation?

Note:

The proportion that a budget takes from a Total Budget, does not necessarily say everything about the priority attached to the issue. For example, some critical interventions with significant impacts are not necessarily the most expensive. In such cases it may therefore be more useful to look at changes over time in the proportion of the total budget that is allocated to a specific issue – *though efficiency improvements in programme implementation may also result in reduced percentage share allocations.*

14.8 Tool 5: Per capita budget amounts

We are often interested in whether resources are allocated fairly, or whether the resource allocations promote equity. Budget allocations may provide some insight in this regard, for example in terms of:

- Changes in (real) per capita spending over the years (adjusting for changes in the population)
- Per capita spending across geographic regions
- Spending on programmes that benefit disadvantaged groups in particular

The calculation steps for changes in per capita spending over the years are provided below:

Information required:

1. The real budget amount for the municipality/programme and years of interest
2. The population figures for the area or characteristics and the years of interest

or

1. The budget amounts for a programme disaggregated by geographic area or population group / characteristic that we are interested in
2. Population figures disaggregated by geographic area, or population group / characteristics we are interested in

Calculation Steps:

1. Divide the budget amount by the population figure

In brief:

Per capita amount = Budget / Population

2. The calculation is then repeated for each year, or for each area or population group that you want to include in the comparison.
3. Compare the results for each year (or for each region, or population group)

One needs to be very careful with per capita comparisons:

- Large differences may be explained by:
 - Specific service needs due to the socio-economic status of the population (compared to average) Backlogs or special (short-term) projects in certain areas cause differences in outputs and outcomes.
 - The efficiency of service delivery may differ (people who stay close to each other may be relatively less expensive to service).
 - One would thus need to look into the reasons why less or more is being spent per capita: types and costs of services, distances (urbanisation) and capacity.
- The data that you require may not always be available, comparable or accurate.
- Budget figures are often reflected in R'000, whereas population figures are often written out in full. Always carefully check whether you have the "zero's" right.
- Per capita budget comparisons may be more relevant to some government activities than to others.
- Examples where it can be (carefully) applied, are:
 - Social grants: grants divided by number of people entitled to grants
 - Education: a programme budget divided by the number of people entitled to that type of education.

Simple DIY example:

1. The 2004/05 Budget for programme P in real terms is: R 200 million
The 2005/06 Budget for programme P in real terms is: R 210 million
2. The population that programme P should cover in 2004/05 is: R 1.1 million
The population that programme P should cover in 2005/06 is: R 1.3 million
3. The per capita budget for programme P is then: $R\ 200\ m / 1.1m = R\ 181.82$

- Is the per capita budget for P in 2005/06 higher or lower than in 2004/05? How much is it?

Percentage change calculations can also be applied to per capita figures, by just taking the (real) per capita budget figures for two years and calculating the percentage change between the two years using Tool 3.

The table below shows how the source of population figures (DPLG, or Statistics South Africa) may affect the results of per capita calculations.

Table: comparison of per capita expenditure calculated on different population estimates

	Estimates	
Jhb. Total Health Expenditure	R	225,860,000
Jhb Total Population		3,225,812
Average per capita Health Exp.	R	70.02
<hr/>		
Alexandra Health Expenditure	R	16,195,000
Alexandra Population (DPLG est.)		350,000
Per capita Health Exp. Alexandra	R	46.27
% Difference from average	%	-33.91
<hr/>		
Alexandra Health Expenditure	R	16,195,000
Alexandra Population (Stats SA)		166,969
Per capita Health Exp. Alexandra	R	96.99
% Difference from average	%	38.53

Own calculations

Note: taking DPLG population data for Alexandra, per capita municipal health expenditure in Alexandra is 33.91% below the Average for JHB. Taking the StatsSA population figure, per capita municipal health expenditure for Alexandra is 38.5% above the JHB average. This points to the critical importance of using the most accurate data, and comparing the results of your calculations to results if you use information from other sources.

14.9 Tool 6: Actual Expenditure as percentage of the Budget

You may also want to look at efficiency, in terms of whether the budgeted amounts are actually spent.

Under-spending may be inefficient as well as ineffective, because the amounts that have not been spent in one programme or vote are not used to the benefit of citizens. Unspent funds could have been used to implement or upscale another programme instead. Under-spending may however be the positive result of increased efficiency or economy in a programme, if the target outputs are realised with less money. It is important that the saved funds are then channelled to other agreed upon priority activities within the programme.

Over-spending may also be inefficient, because funds are used for a purpose for which they were not intended. Of course, the extent and specific reasons for over-spending may qualify our judgement, for example, if more people than planned are provided with a critical service.

The problem of over- and under-spending for municipalities is mediated by their opportunity to adjust their budgets once a year, normally around February. The adjusted budget can accommodate insights emanating from the municipality's mid-year report for the present financial year and the annual report from the previous financial year.

One may also look at the adjusted budget as percentage of the original budget in a given year, and see whether progress on a priority issue is perhaps accelerated or hampered.

Information required:

1. Original budget figure for the municipality, vote or programme
2. Actual expenditure / adjusted budget for the municipality, vote or programme

Calculation Steps:

1. Divide the actual expenditure or adjusted budget by the original budget (for the same year)
2. Multiply the result of step one by 100% to get the percentage.

In brief:

$$\text{Expenditure as percentage of the Budget} = \text{Expenditure} / \text{Budget} * 100\%$$

Simple Example:

1. City of Jhb Expenditure - Original Budget for 2004/05: 14,514,285
2. City of Jhb Expenditure – Revised Budget for 2004/05: 15,102, 447
3. Revised budget as % of Original Budget =
$$15,102,447 / 14,514,285 * 100 = 104.0 \%$$
4. Interpretation: Jhb has revised their original budget upwards by 4 percent.

It would be interesting to find out what led to this revision, and which votes or activities have primarily benefited from this increase. The increase is probably related to the increase in revenue, which in this case was also about 4 %. Because we are considering a revised budget, we cannot speak of over-spending.

The basic budget calculation tools provided in this session can generally be applied to:

- National GDP, budgets and expenditure
- Provincial and local government total and sector budgets and expenditure
- Programme and sub-programme budgets
- Input item budgets (personnel, equipment, etc.)
- Geographic, District, Local Government, Service Provider etc. budgets

- **ANY BUDGET OR EXPENDITURE FIGURES**

- Growth rates can also be calculated for outputs or outcomes and compared to growth in the budget

Once you feel you have sufficient information, you can start preparing a presentation, budget submission or newspaper article. Be sure to back up your analysis with sufficient evidence, and reference all information sources.

14.10 Advocate: practical ideas for taking the issue further

If you want to take the priority issue further, it will be helpful to develop an advocacy strategy in order to plan how your argument in relation to the priority issues can be taken further. This should ensure that the results of budget analysis do not end up shelved in your office or house.

Advocacy places emphasis on:

- Identifying a problem in a community;

- Coming up with a solution to that problem;
- Establishing strong support for that solution; and
- Providing an effective implementation plan.

Through advocacy activities, it may be possible to change government policies, positions, priorities or programmes. In order to get the intended effect, it is important to address the relevant government sphere and department. Nevertheless, as local government is closest to people, involving local stakeholders in your advocacy campaign is critical.

14.10.1 Planning an advocacy campaign

The following steps are important when you plan an advocacy campaign:

- Defining the issue or problem
- Defining the objective (what you want to change, who will make the change, by how much, and by when).
- Using research, as no compelling argument can be made without the necessary data and figures.
- Identifying the key players
- Developing a campaign strategy and action-plan

Developing a campaign strategy involves thinking about how you are planning to use the budget research and analysis results in the advocacy campaign, what additional research or information is required, and where that information can be obtained.

14.10.2 Key players

In developing an advocacy campaign, it is important to identify key players. These are the people who have to be persuaded for the campaign to be successful. Key players can be divided into primary and secondary audiences:

- Primary key players include decision-makers (e.g. councillors, senior managers in the municipality) with the authority to influence the outcome of your objective directly. They are the primary targets of an advocacy strategy.
- Secondary key players comprise individuals and groups that can influence the decision-makers. Their opinions and actions may affect the options and actions of the decision makers. Your secondary audience may include potential partners.

For example, civil society organisations (CSO's) can advance their advocacy positions through councillors, ward committees, local government staff, and the media. Local ratepayers'

associations may also be valuable structures through which local issues can be addressed. The table below shows a number of advocacy strategies that may be used.

10.4.3 Examples of advocacy strategies

- Writing to an MP or your local councillor
- Producing a campaign newsletter
- Doing media interviews
- Sending out press releases
- Having lunch with the editor of a local newspaper
- Persuading an opposition party councillor to ask a question in the council meeting
- Paying for a newspaper advertisement
- Attracting the interest of a larger, or international NGO (like Amnesty International)
- Taking the council to court
- Sending a written submission to the council
- Selling t-shirts supporting the campaign
- Producing a newsletter setting out the various options government has
- Asking for a private meeting with the relevant councillor
- Lobbying members of the ward committee
- Forming an alliance with a network of community organisations
- Monitoring the local council

Source: 'Advocacy and Communication' - Trainer's Guide from the Institutional Capacity Building Unit, IDASA.

14.10.4 Accountable governance and participation

If you want to influence decisions that may have a great impact on the lives of South Africans, diarise the dates of your municipality's IDP and budget consultation forums (available from the mayor's office) and participate in them. If anything in the documentation or process itself is not clear, ask for a satisfactory explanation. Encourage others to participate in these forums too. Although you may fear that your involvement will not make a difference, it is possible to stimulate positive changes through informed public interest and involvement.

Accountable governance depends on our active engagement!

Chapter summary

- Provinces, municipalities, departments and programmes differ in size, making simple comparisons invalid.
- The chapter provides six basic tools which you can apply to budget figures to facilitate your understanding, analysis and comparison of budget figures:
 - Comparing nominal budget amounts to costs provides information regarding adequacy: Is the allocation enough?
 - Converting nominal budget amounts to real amounts ensures that the figures you are working with are adjusted for inflation. When comparing real allocations for different years, you can see whether they keep up with inflation.
 - The percentage change between allocations in subsequent years facilitates conclusions about progress: are the allocations increasing or decreasing over time?
 - Comparing the percentage share that different functions or programmes receive from the budget gives an indication of government commitment to each function or programme.
 - Comparing per capita (per person) budget amounts for different regions or population groups provides insight regarding whether allocations are equitable: Do the allocations promote (geographical) equity?
 - Actual Expenditure as percentage of the budget tells you more about efficiency: Are the budgeted amounts indeed spent? Budget allocations that are not spent could have rather been allocated for the provision of other types of services.
- The results of calculations need to be combined with knowledge of government policies and municipal strategies, as well as other relevant information in order to gain full understanding of possible reasons and explanations behind the financial findings.
- The budget analysis tools can be applied to any type of budget figures.
- An advocacy strategy is important if budget analysis results are to impact on budget and revenue decisions.
- In developing an advocacy campaign, it is critical to identify primary and secondary key players who can influence decisions, or decision-makers.
- The success of an advocacy campaign is strongly influenced by the quality of the research that is used to back up the argument.
- Because accountable governance depends on your active engagement, it is important to participate in consultative meetings and to encourage others to do so as well.

PART V: LOCAL GOVERNMENT BUDGET DICTIONARY

Term	Explanation / Definition	Source
Adjustment Budget	The proposed amendments to the appropriations voted in the main Budget for the year. This is the mechanism by which government seeks parliamentary approval for spending which differs from the allocations legislated for in the Budget and Appropriations Act	Hickey, A and Van Zyl, A (2002), South African Budget Guide and Dictionary, IDASA Budget Information Service,
Accrual Accounting	System of accounting where items are brought to account and included in the financial statements as they are earned or incurred, rather than as they are received or paid. Compare with cash accounting.	www.deh.gov.au/about/budget/2002/paes/glossary.html
Accrued	Periodically accumulated over time; "accrued interest"; "accrued leave". Also: the amount of interest owing but not paid.	wordnet.princeton.edu/perl/webwn/ www.chartfilter.com/glossary/a66.htm
Activity Based Costing	A methodology that measures the cost and performance of activities, resources, and cost objects. Resources are assigned to activities, then activities are assigned to cost objects based on their use. Activity-based costing recognizes the causal relationships of cost drivers to activities	strategicsourcing.navy.mil/reference_documents/defs.cfm
Affidavit	Written declaration made under oath; a written statement sworn to be true before someone legally authorized to administer an oath	wordnet.princeton.edu/perl/webwn/
Arrears	Outstanding debts.	Hickey, A and Van Zyl, A (2002), South African Budget Guide and Dictionary, IDASA Budget Information Service, pg.81
Assets	Anything owned that has a cash value. This includes property, goods, savings or investments.	1-debt-consolidation-loans-and-services.org/glossary.html
Assignment	Functions may be allocated to local government through assignment. This entails the transfer of authority (where delegation would be merely the transfer of responsibility).	See chapter 4 of this guide
Audit	An examination and verification of a company's financial and accounting records and supporting documents by a professional, such as a Certified Public Accountant.	http://www.investorwords.com/324/audit.html
Bad Debts	Accounts or loan receivable that is considered uncollectible and is written off by a firm or institution. (Reserves are usually maintained for uncollectible accounts.) The relationship of recoveries and write-offs to accounts receivable can indicate a firm's credit and charge-off policies. Most companies make a bad debt allowance since it is	www.firstrepublicbrokerage.com/republic/invest_glosry_BBe.htm www.investorwords.com/384/bad_debt.html - 19k -

Term	Explanation / Definition	Source
	unlikely that all of their debtors will pay them in full.	
Balance Sheet	A financial statement that reports a company's assets and the claims against them - liabilities and stockholders' equity - at a set date noted on the statement. Also called statement of financial position.	www2.daimlerchrysler.com/investor/glossary/glossary_b_e.htm
Basis Points	1/100th of 1 percent. If an interest rate changes 50 basis points, for example, it has moved 1/2 of 1 percent.	www.cucompanies.net/pages/mort_terms.asp
Benefit Principle	The benefit principle implies that those individuals who benefit from a service should pay for it in some way.	See chapter 7 of this guide
Bond	A certificate of debt that is issued by a government or corporation in order to raise money with a promise to pay a specified sum of money at a fixed time in the future and carrying interest at a fixed rate.	http://www.investorwords.com/521/bond.html
Budget	A plan for acquiring resources (planned revenue or income) and using them to achieve objectives (planned expenditure).	-
Budget Council	The Budget Council is a body consisting of the Minister of Finance and the MEC for finance of each province, in which the national government and the provincial governments consult on financial matters affecting the provincial sphere of government.	Intergovernmental Fiscal Relations Act, No. 97, 1997
Budget Panel	A consultative forum established to co-ordinate financial relations between national, provincial and local government.	Hickey, A. and Van Zyl, A. (2002), 2002 South African Budget Guide and Dictionary, IDASA Budget and Information Service, pg. 85
Bulk Purchases	In local government context: large volumes bought of water, electricity, etc. for further distribution	
Capex	See: Capital Expenditure	
Capital	Assets available for use in the production of further assets	wordnet.princeton.edu/perl/webwn
Capital Budget	It is a budget that lists the expenditures on capital items - such as on building, purchasing capital goods – and the sources of funds to meet those expenditures.	http://www.indiainfoline.com/bisc/jmfc.html
Capital Expenditure	A budget that lists the expenditures on capital items - such as on building, purchasing capital goods – and the sources of funds to meet those expenditures.	investor.news.com/Engine
Capital Investment	Monies invested by an organisation in its buildings, infrastructure or equipment that is anticipated to have an extensive usable life before being replaced. Capital projects generally are significant expenses, requiring long-term planning and financing.	www.wipapercouncil.org/fun7.htm

Term	Explanation / Definition	Source
Capital Markets	Markets in which long-term capital is raised by industry and commerce, the government and local authorities. The money comes from private investors, insurance companies, pension funds and banks.	www.barcap.com/campusrecruitment/glossary/
Cash Accounting	A system of accounting in which revenues are recorded when actually received and outlays are recorded when payment is made. Compare with accrual accounting.	www.cbo.gov/showdoc.cfm
Cash Flow	The net operating income of a property minus its debt service.	www.officefinder.com/glossary.html
Cash flow Statement	An overview or summary of sources and uses of cash for an organisation. It is a measure of an entity's financial health.	print.smallbusiness.findlaw.com/starting-business/starting-business-overview/starting-business-overview-glossary.html ; http://www.investorwords.com/768/cash_flow.html
Clear	The process by which a check or a bank draft is authorized and confirmed for the transfer of funds from one account to another.	http://www.investorwords.com/5457/clear.html
Clearance certificate	Certificate to confirm authorization of a transfer of funds.	
Closing (in finance)	At the end of the financial year	
Closing Cash Balance	The cash surplus or deficit at the end of the financial year.	
CMU	Contract Management Unit	
Collateral	An asset that is used to secure a loan. Assets pledged by a borrower to secure a loan or other credit, and subject to seizure in the event of default.	http://www.investorwords.com/929/collateral.html
Compliance Costs	Compliance costs are the other costs that people and businesses incur when they pay their tax, over and above the actual amount of tax they pay. These other costs can have a money value, in that they may involve time, fees paid to tax advisers, and other costs.	http://www.taxpolicy.ird.govt.nz/publications/files/html/maoridd_macron/glossary.html
Conditional Grant	A transfer of funds from one department to another to perform certain responsibilities. Conditional grants are subject to conditions regarding the purpose for which the funds can be used, which are formulated by the granting department.	-

Term	Explanation / Definition	Source
Consolidated	Consolidated Financial Statement. Financial statement combining the activities of an entity and its subsidiaries (all its parts put together).	www.moneychimp.com/glossary/consolidated_financial_statement.htm - 5k -
Constituency	The body of voters who elect a representative for their area	wordnet.princeton.edu/perl/webwn
Constitution	A constitution sets out how all the elements of government are organised and how power is divided among different political units. It contains rules about what power is exercised, who exercises it and over whom, in the governing of a country. And, as a kind of contract between those in power and those who are subjected to this power, a constitution defines the rights and duties of citizens, and the devices that keep those in power in check. Constitution is the supreme law of the Republic; law or conduct inconsistent with it is invalid, and the obligations imposed by it must be fulfilled.	http://www.concourt.gov.za/text/constitution/what.html
Council (Municipal)	The council is made up of elected members who approve policies and by-laws for their area. The council has to pass a budget for its municipality each year. They must also decide on development plans and service delivery for their municipal area. The work of the council is co-ordinated by a mayor who is elected by council. The mayor is assisted by an executive or mayoral committee, made up of councillors. The mayor together with the executive also oversees the work of the municipal manager and department heads. The work of the municipality is done by the municipal administration that is headed by the municipal manager and other officials. S/he is responsible for employing staff and co-ordinating them to implement all programmes approved by council.	http://www.etu.org.za/toolbox/docs/localgov/webundrstdlocgov.html
Coupon	This part of a bond denotes the amount of interest due, and on what date and where payment will be made. The interest rate paid on a bond issue. Quoted in percentage terms. Can be a fixed or floating rate.	http://www.chartfilter.com/glossary/c25.htm ; www.pncadvisors.com/investments/view/1,1419,Glossary,00.html
CPI	Consumer Price Inflation refers to price increases as measured by the Consumer Price Index (CPI) which reflects the prices of a representative basket of consumer goods and services.	www.idasa.org.za/gbOutputFiles.asp?WriteContent=Y&RID=824 -
CPIX	CPIX inflation is a variant of consumer price inflation: it is the same except that it excludes mortgage costs.	www.idasa.org.za/gbOutputFiles.asp?WriteContent=Y&RID=824 -

Term	Explanation / Definition	Source
Credit Rating	Evaluation of an individual or corporation's history of repaying past loans. Credit ratings are used as a benchmark to assess the future ability of a creditor to pay back loans	www.onlinewbc.gov/docs/starting/glossary.html
Cross-Subsidisation	Using monies brought in by a certain consumer group to (partly) pay for provision of (the same type of) goods or services to another consumer group	
Current Assets	Those assets of a company that are reasonably expected to be realized in cash, sold or consumed during one year. These include cash, US Government bonds, receivables and money due usually within one year, as well as inventories.	www.raymondjames.com/gloss.htm -
Current Liabilities	Liabilities of a company that the company expects to satisfy within one year. Typically accounts payable, short term debt, notes payable, taxes payable, dividends payable and other current liabilities.	www.scottish-newcastle.com/sn/investor/services/glossary/
Current Ratio	An indication of a company's ability to meet short-term debt obligations (solvency); the higher the ratio, the more liquid the company is. A current ratio of 1.0 would theoretically mean that the entity will be able to survive (pay the bills) for one more year, even if it would not bring in additional revenues.	http://www.investorwords.com/1258/current_ratio.html ; www.moneychimp.com/glossary/current_ratio.htm -
Debt	Owing something (especially money); Government debt is the outstanding amount of money or aid that a government owes to private lenders at any given point in time. Governments borrow when they run deficits, but reduce outstanding debts when they run surpluses. Therefore debt represents the total of all annual deficits, minus any annual surpluses, over the years.	wordnet.princeton.edu/perl/webwn; Shapiro, I (2001), A guide To Budget Work For NGOs, International Budget Project pg.111
Debt Servicing Costs	Costs related to the repayment of interest and principal to external creditors	www.bized.ac.uk/virtual/dc/resource/glos2.htm
Debt to asset ratio	A coverage ratio that measures the amount of debt a company has in relation to its assets. It is calculated by dividing Total Debt by Total Assets. Entities with high debt/asset ratios could be in danger if creditors start to demand repayment of debt.	www.tepper.cmu.edu/afs/andrew/gsia/investclub/Glossary.htm ; http://www.investorwords.com/5497/debt_asset_ratio.html
Debt to revenue ratio	Debt divided by incoming revenue	
Deficit	Government spending in excess of what they take in as (tax) revenue. Don't confuse the deficit with the debt: the debt is the total amount the government owes; the deficit is the annual amount by which the debt gets bigger.	http://www.moneychimp.com/glossary/deficit_spending.htm

Term	Explanation / Definition	Source
Delegation	Powers and functions are allocated to local government through allocation or delegation where delegation entails the transfer of provider responsibility	See chapter 4 of this guide
Depreciation	Decrease in the value of equipment from wear and tear and the passage of time. In accounting: The total amount that assets have depreciated by during a reporting period is shown on the cash flow statement, and also makes up part of the expenses shown on the income statement. The amount that assets have depreciated to by the end date of the period is shown on the balance sheet.	www.onlinewbc.gov/docs/starting/glossary.html ; http://www.moneychimp.com/glossary/depreciation.htm
Derivative Financial Instrument	A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates, foreign exchange rates and equity prices. Examples of derivatives include futures and options.	www.fcc-fac.ca/en/aboutus/Profile/glossary_e.asp ; http://www.investorwords.com/1421/derivative.html
DMTN (Domestic Medium Term Note) Programme	A South African programme aiming to facilitate issuer's borrowing requirements. It can provide municipalities with flexible strategies and means of raising capital for the purpose of funding capex through the capital markets.	http://www.strate.co.za/Files/Publications/InternationalR/ISSA.pdf ; http://www.joburg-archive.co.za/2005/pdfs/IDP-Chapter7.pdf
DORA	Division of Revenue act	
Economy	The system of production and distribution and consumption; Activities related to the production and distribution of goods and services in a particular geographic region; The correct and effective use of available resources.	wordnet.princeton.edu/perl/webwn ; http://www.investorwords.com/1652/economy.html
Effectiveness	A measure of the benefit resulting from an intervention for a given problem. Should consider both the efficacy of an intervention and its acceptance by those to whom it is offered. Capacity to produce strong results.	www.fammed.ouhsc.edu/RobHamm/UsersGuide/define.htm
Efficacy	Capacity or power to produce a desired effect	wordnet.princeton.edu/perl/webwn
Efficiency	The ratio of the output to the input of any system	wordnet.princeton.edu/perl/webwn
EMS	Emergency Management Services (in provincial budgets, this generally means Emergency Medical Services)	

Term	Explanation / Definition	Source
Equitable Share	The Constitution provides that each sphere of government is entitled to an equitable share of revenue raised nationally to enable it to provide basic services and perform the functions allocated to it. The equitable division of revenue takes into account the functions assigned to each sphere under the Constitution and the capacity of each government to pay for these functions through own receipts and revenues. The equitable share is an unconditional allocation to the national government, to each of the nine provinces and to local government. Provincial and local governments, being distinct spheres of government, are fully responsible for these funds and are directly accountable for how they are spent.	http://www.finance.gov.za/documents/mtbps/1997/5.pdf
Executive	The executive (the president, deputy president and ministers) makes policy, proposes laws and implements laws passed by the legislature	http://www.concourt.gov.za/text/constitution/what.html
Expenditure	A payment, or the promise of a future payment.	www.investorwords.com/1841/expenditure.html - 19k - 5 Oct 2005
Financial and Fiscal Commission (FFC)	The Financial and Fiscal Commission makes recommendations envisaged in the Constitution, or in national legislation, to Parliament, provincial legislatures and any other authorities determined by national legislation. The Commission is independent and impartial, and subject only to the Constitution and the law. The Commission members are appointed by the President. The Commission must report regularly both to Parliament and to the provincial legislatures.	The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)
Financing (Activities)	Borrowing money to purchase property or equipment. Activities undertaken to provide the necessary capital.	www.halstead.com/resources_glossary.aspx ; http://www.investorwords.com/cgi-bin/letter.cgi?F
Financing (Financial) Instrument	An instrument having monetary value or recording a monetary transaction.	http://www.investorwords.com/cgi-bin/letter.cgi?F
Fiscal	Involving financial matters	wordnet.princeton.edu/perl/webwn
Fiscal Gap	The gap which arises because of a difference between revenue and expenditure requirements.	See chapter 6 of this guide

Term	Explanation / Definition	Source
Fiscal Dumping	Fiscal dumping refers to the transfer of funds by the transferring department at a rate faster than the receiving agency, e.g. a municipality, is able to spend them. Fiscal dumping commonly leads to a build-up of unspent money and requests for massive rollovers by receiving municipalities.	www.idasa.org.za/gbOutputFiles.asp?WriteContent=Y&RID=824 -
Fiscal Policy	All policy by the government involving the collection and spending of revenue; i.e. "tax and spend" policy. In particular, fiscal policy refers to efforts by the government to stimulate the economy directly, through spending. Compare monetary policy.	http://www.moneychimp.com/glossary/fiscal_policy.htm
Fixed debt	Longer term debt with a fixed interest rate	
Floating Debt	Continuously renewed short-term debt for costs of ongoing operations. The advantage of floating debt is that there is a chance to benefit from reductions in interest rates. In addition, interest rates on long-term debt are often higher than interest rates on short-term debt, so the company might be saving itself money by refinancing short-term debt as opposed to borrowing long-term. However, the downside is that the company might suffer if interest rates rise and they have to refinance at a higher cost.	http://www.investorwords.com/2015/floating_debt.html ; http://financial-dictionary.thefreedictionary.com/floating%20debt
Foreign Exchange Risk	The risk that a long or short position in a foreign currency might have to be closed out at a loss due to an adverse movement in exchange rates.	http://www.thefinancialreference.com/glossary/foreign-exchange-risk.htm
Foreign Exchange Risk	The risk that the value of a foreign asset or liability may be adversely affected by a change in the value of the foreign currency.	www.tepper.cmu.edu/afs/andrew/gsia/investclub/Glossary.htm - Definition in context
GAAP	Generally Accepted Accounting Practice refers to the standard set of rules, principles, conventions that an entity must observe when preparing financial reports, accounts and statements. The Financial Accounting Standards Board (FASB) has the primary authority to set out GAAP for non-governmental agencies.	http://www.ohioscpa.com/visitors/article.asp?article=1721-1 http://wordnet.princeton.edu/perl/webwn?s=gaap
GAMAP	Generally Accepted Municipal Accounting Practice encompasses the standard rules and principles that all municipalities and municipal entities must comply with when preparing their annual financial statements for each financial year. Municipal Entities must submit these reports to meet the requirements specified in section 122(3) of the Municipal Finance Management Act (MFMA) of 2003.	http://www.treasury.gov.za/mfma/Accounting%20Standards%20Circular%2028%20June%202005.pdf

Term	Explanation / Definition	Source
GDP	Gross Domestic Product inflation is a measure of the total increase in prices in the whole economy. Unlike consumer price inflation, gross domestic product inflation includes price increases in goods that are exported, excludes imported goods and includes intermediate goods such as machines.	www.idasa.org.za/gbOutputFiles.asp?WriteContent=Y&RID=824 -
Grant	A form of financial or monetary assistance that does not have to be repaid; A sum of money given to an organisation or individual to be used for a specific purpose, activity or facility; The act of providing a subsidy.	http://wordnet.princeton.edu/perl/webwn?s=grant http://educationusa.state.gov/predeparture/glossary.htm
Grant-in-aid	Funding paid to a body to assist it in furthering and achieving its objectives; A grant given to a local government by a central government.	http://wordnet.princeton.edu/perl/webwn?s=grant-in-aid http://www.archive.official-documents.co.uk/document/maffdh/fsa/glossary.htm
GRAP	Generally Recognised Accounting Practice refers to the government accounting standards required by the Constitution. The private sector equivalent is Generally Accepted Accounting Practice (GAAP).	Hickey, A and Van Zyl, A (2002), 2002 South African Budget Guide and Dictionary, IDASA Budget Information Service, pg.105
Gross (- expenditure, or – income)	Before any deductions.	wordnet.princeton.edu/perl/webwn
Hedge (interest rate _)	Any technique implemented to eliminate or reduce financial risk; a transaction intended to reduce the risk of loss from price fluctuations; action taken by a buyer or seller to protect income against changes in prices, interest rates or exchange rates.	wordnet.princeton.edu/perl/webwn?s=hedge; www.macdonaldshymko.com/learningcentre/glossary.html
Horizontal Division/Split	The division of revenue between the nine provinces. After money available in the National Revenue Fund is divided between the three spheres of government (vertical split), the total amount going to the provinces is divided between them according to a formula.	Hickey, A and Van Zyl, A (2002), 2002 South African Budget Guide and Dictionary, IDASA Budget Information Service,
IDP	Integrated Development Plan for a municipality	

Term	Explanation / Definition	Source
Incremental Budgeting	Taking the previous year's budget and simply adding an increment (additional amount) to each budget amount. This increment is usually related to the inflation rate	
Infrastructure	A country's fundamental system of transportation, communications, and other aspects of its physical capabilities. These structures constitute a country's economic foundation.	http://www.thefinancialreference.com/glossary/infrastructure.htm
In-kind flows	A type of conditional grant.	See chapter 9 of this guide
Inputs	The resources allocated to produce certain results, for example, money, labour or time.	See chapter 1 of this guide.
Institutional Finance	Bond Issues (as opposed to short term bank loans - more expensive)	
Intangible Assets	Long-term assets that have no substance or physical properties. Intangible assets include goodwill, patent rights, permits, copyrights and licenses. An intangible asset also acts as a legal claim to a future benefit, most often money.	www.ots.treas.gov/glossary/
Integrated Development Plan (IDP)	A plan aimed at the integrated development and management of a municipal area	
Interest as % of operating expenditure	An indication of financial viability and soundness for an entity.	Local Government: Municipal Structures Act no.117 of 1998
Interest Rate Risk (Policy Statement)	The chance that interest rates will increase or decrease more than projected, and the related impact on funding arrangements.	
Internal Recoveries	Internal recoveries represent transfers within the Consolidated Revenue Fund and generally include inter-ministry charge-backs for costs budgeted centrally in government for the provisions of certain goods and services. These costs are recovered from other areas of government that consume or use these goods and services.	http://www.bcbudget.gov.bc.ca/est/vi_explan_notes.pdf
Internal Transfer	Transfer of funds from one department to another department within a government entity.	
Investment Portfolio	This term describes all the investments, holdings and securities owned by an institution or an individual. A diversified portfolio contains a variety of investments.	http://www.investorawareness.com/glossary.html
Issue (of a Bond)	Bonds sold by a corporation or government agency at a particular time and identifiable by date of maturity	wordnet.princeton.edu/perl/webwn
Judiciary	The judiciary tries cases and administers justice. The judiciary is unique in that it is not elected, but is independent. This means no one can interfere in the work of the Constitutional Court and the other	http://www.concourt.gov.za/text/constitution/what.html

Term	Explanation / Definition	Source
	courts in the country.	
LED	Local Economic Development	
Legislature	The legislature (parliament, the provincial legislatures and local councils) makes the laws and monitors the executive. The legislature can make laws but cannot hand down judgments or take executive action.	http://www.concourt.gov.za/text/constitution/what.html
Lekgotla	A regular conference held by members of an organisation or institution to discuss a particular list of issues.	
Levy	A charge imposed and collected	wordnet.princeton.edu/perl/webwn
Liabilities	Liabilities are debts owed to someone else. Outstanding public debt is the primary liability for governments, and reflects the amounts borrowed from the public that must be repaid at a future date. A contingent liability is one that depends on the occurrence of a specific event.	Shapiro, I (2001), A Guide to Budget Work for NGOs, The International Budget Project
Liquid Ratio	The ratio of readily available current assets to current liabilities.	http://www.indiainfoline.com/bisc/jmfl.html
Liquidity	The ability of an asset to be converted into cash quickly at a reasonable price and without substantial loss of value. The term is also used to refer to the ability of the market in a particular security to absorb a fair amount of buying and selling at reasonable price changes.	http://www.guardfamily.org/B06/B0601/A0001_D/glossary/bhs04_glossary.html http://www.raymondjames.com/gloss.htm
Local Government Budget Forum	The Budget Forum is a body in which the national government, the provincial governments and organised local government consult on financial matters affecting the local sphere of government. The Local Government Budget Forum consists of The Minister of Finance; The MEC for finance of each province; Five representatives nominated by the national organisation recognised in terms of the Organised Local Government Act, 1997; and one representative nominated by each provincial organisation recognised in terms of that Act.	Intergovernmental Fiscal Relations Act, No. 97, 1997
LGES	Local Government Equitable Share	
Maturity (finance)	The date on which a debt becomes due for payment. Also called maturity date.	

Term	Explanation / Definition	Source
Medium-Term Budgets	Comprehensive statement of government finances that include spending, revenues, deficit, surplus or debt for the upcoming years and the two years following. The budget is regarded as the government's main economic policy document, indicating how the government plans to use public resources to meet policy goals. The budget also outlines how revenue raised by the national government will be divided between national, provincial, and local government, as well as government departments.	Hickey, A and Van Zyl, A (2002), 2002 South African Budget Guide and Dictionary, IDASA Budget Information Service, pg.1
MFMA	Municipal Finance Management Act	
MIG	Municipal Infrastructure Grant	
Monetary Policy	Actions by the South African Reserve Bank to control the money supply. In particular, monetary policy refers to efforts to fight inflation or otherwise control or stimulate the economy by controlling the availability of spending money to companies and consumers. Compare fiscal policy.	http://www.moneychimp.com/glossary/monetary_policy.htm
Money Market	A collective term for the many markets in which funds that are loaned for short periods to businesses or to governments are bought and sold.	http://www.answers.com/money+market&r=67
Movement e.g. (in long-term liabilities)	Changes	
MPD	Metropolitan Police Department	
MTC	Metro Trading Company	
Mutatis mutandis	A Latin phrase that means "upon changing what needs to be changed." It indicates that attention should be paid to the corresponding differences between a current statement and a previous one. The term is used frequently in economics to signify "with the necessary changes having been made," or "with the respective differences having been considered."	http://www.answers.com/mutatis+mutandis&r=67
NER	National Electricity Regulator	
Net Fair Value	A concept considered by some to be a rational and an unbiased estimate of the potential market price to be paid in full for a good, service or financial asset after all deductions have been made.	http://www.answers.com/fair+value&r=67
Nominal	Not adjusted for inflation	www.investorwords.com/3

Term	Explanation / Definition	Source
		296/nominal.html - 20k - 5 Oct 2005
Note	A short-term debt security, usually with a maturity of five years or less.	
NT	National Treasury	
Opening (finance)	At the beginning of the financial year	
Operating Budget/expenses	A financial plan of current operations that encompasses both estimated revenues and estimated expenditures for a specified period, normally one fiscal year. An operating budget details expenditure related to an entity's everyday operation, services and activities.	http://www.jmu.edu/resourcemgmt/budgetglossary.shtml
Operating Costs	<i>See Operational Expenditure</i>	
Operating Income	A measure of an organisation's earning power from ongoing operations, equal to earnings before deduction of interest payments and income taxes. Operating income is calculated by subtracting costs of sales and operating expenses from revenues. Also called operating profit or EBIT (earnings before interest and taxes).	university.smartmoney.com/glossary/index.cfm
Operational Expenditure	The costs component of a municipal operating budget. A municipality's operating budget itemises the planned operational expenditure and income, for the delivery of all services to a community. Operational expenditure is the cost of goods and services from which there will be short-term benefit - that is, services that will be used up in less than one year.	http://www.etu.org.za/toolbox/docs/localgov/webmunfin.html
Outcomes	Changes in the quality of life brought about by budget outputs.	See chapter 1 of this guide
Outputs	The public services that are provided by government – such as the number of medical operations that are performed, or the number of prisoners that are accommodated in cells.	Hickey, A and Van Zyl, A (2002), 2002 South African Budget Guide and Dictionary, IDASA Budget Information Service
Overdraft	The instance when the amount of money withdrawn from a bank account is greater than the amount actually available in the account. If agreed to in advance, an overdraft serves as a form of loan facility. If not, legal charges may be incurred; A draft in excess of the credit balance.	http://www.sfs-group.co.uk/frameset-glossary-O.html http://wordnet.princeton.edu/perl/webwn?s=overdraft
Over-Subscribe	The act of contributing a specified sum for more than the amount available of a commodity or item offered for sale.	http://www.answers.com/oversubscribe
Per capita	Per person (literally: 'per head')	-
Percentage Share	A simple formula for calculating what share of the budget is allocated to a programme in percentage terms.	See chapter 1 on this guide
Performance-based Budgeting	Allocating costs based on programme and project outputs linked to defined performance measures	

Term	Explanation / Definition	Source
PES	Provincial Equitable Share	
PHC	Primary Health Care	
Plenary Functions	Functions for which National Government is solely responsible for.	See chapter 4 of this guide
Portfolio Committee	A body of persons appointed for the specific purpose of discussing and making decisions with regard to the collection of investment holdings of a particular investor.	Hickey, A and Van Zyl, A (2002), 2002 South African Budget Guide and dictionary, IDASA Budget Information Service, pg.122
Primary interest rate risk	The possible occurrence of the chief dangers associated with a surcharge on the repayment of debt or the return derived from an investment. These include Credit risk (the risk of default on a loan due to bankruptcy); Maturity/Term risk (the risk involved in a long-term investment); Liquidity risk (the need of compensating the illiquidity of the debt); inflation risk (macroeconomic price changes); and exchange rate risk (currency fluctuation).	http://en.wikipedia.org/wiki/Interest
Prime Rate	The most favourable interest rate charged by lenders on a short-term loan to qualified customers; The lowest interest rate charged by commercial banks to their most creditworthy customers.	http://www.bremer.com/personal/heloans/glossary.cfm http://www.raymondjames.com/gloss.htm
Principal	The amount borrowed, or the part of the amount borrowed which remains unpaid (excluding interest). Also called: principal amount.; The part of a monthly payment that reduces the outstanding balance of a mortgage; The original investment.	
Programme	A programme is a subdivision of a vote, which mostly comprises a number of projects that together address a defined issue. For example, in a certain municipality the 'Health and Protection Services' vote could include programmes such as 'Disaster Management'; 'Municipal Health'; 'Fire Services'; and 'Primary Health Care'.	See chapter 2 of this guide
Provision	A stipulated condition in an agreement.	http://www.investorwords.com/3839/principal.html
Real (finance)	Adjusted for inflation	-

Term	Explanation / Definition	Source
Recoveries	Recovery is the process of getting back or recouping. Recoveries refer to the amounts received from a reinsurer for a reinsured's losses.	http://www.mroc.com/ns/pr od_serv/amredeGLOSSARY/b ody_amredeGLOSSARY.html
Recovery	Getting back a specific sum of money owed to the organisation	
Redemption	The act of buying back or recovery either by expenditure of effort or by a stipulated payment. The term can also be used to refer making a single payment to discharge an obligation and converting assets into goods or cash.	The Concise Oxford Dictionary, (1990), Oxford University Press, pg. 1005
Redemption (finance)	The payment of an obligation (e.g. borrowed amount), such as a government's payment of the value of its bonds.	http://www.thefreedictionary.com/redemption
Redemption Penalties	Charges paid to the lender in compensation for lost interest if redemption takes place ahead of schedule.	http://www.tiscali.co.uk/property/jargon_buster/?count ry=Redemption+penalties
Refinancing (of debt)	Paying off an existing loan with the proceeds from a new loan, usually of the same size.	www.investorwords.com/4115/refinancing.html - 21k - 5 Oct 2005 - Cached - Similar pages
Regional levies	(Regional service council levies) Taxes on payroll and turnover collected by local authorities to fund mainly infrastructural development projects.	Republic of South Africa, Budget review 2005, pg.167
Regional Support	Ward Councillor Support, People Centre and Support Services	
Remission	The cancellation of a debt or penalty; A payment of money sent to a person in another place.	http://wordnet.princeton.edu/perl/webwn?s=remission
Reserves	An amount of capital held back from investment in order to meet probable or possible demands.	http://www.answers.com/reserves
Resolution	Finding a solution to a problem. A formal expression by a meeting; agreed to by voting.	wordnet.princeton.edu/perl/webwn;dict.die.net/resolution/ -12k -
Revenue	The total amount of income a business or government receives from all sources. [A government's annual income collected from taxes on salaries, profits etc. which is used to meet public expenses.]	(Hickey, A and Van Zyl, A (2002) South African Budget Guide and Dictionary, IDASA Budget Information Service http://en.wikipedia.org/wiki/Revenue
RSC	Regional Services Council	

Term	Explanation / Definition	Source
Salary to Operating Ratio	An indication of personnel expenditure in proportion to total operating expenditure. If this ratio is high, salary payments may crowd out expenditure on other operational inputs needed for service delivery, such as administrative consumables, maintenance expenditure, goods and services, etc.	
SDBIP	Service Delivery and Budget Implementation Plan	http://www.richemp.org.za/TulipuMhlathuzeInternet/repository/uMhlathuze%20News/Finance/ServiceDeliveryBudget.doc
Security (finance)	A formal declaration that documents a fact of relevance to finance and investment; the holder has a right to receive interest or dividends; [Syn. Certificate]	http://dict.die.net/security/
Shortfall	A term that refers to a situation where actual revenues collected are less than those that had been projected.	http://www.budget.state.ny.us/citizen/financial/misc.html
SHU	Share Holders Unit	
Spatial Development Framework	An overarching plan that indicates the types of development planned for geographic areas in a province or municipality. Municipal and provincial spatial development frameworks should be aligned.	
Spread	The difference between the bid and offer prices. This term also generally refers to the act of distributing or dispersing an item, asset, resource etc. widely.	http://wordnet.princeton.edu/perl/webwn?s=spread http://www.trading-futures-markets.com/glossary.htm
Structured Loans	A loan is a sum of money lent, normally to be returned with interest. Structured loans are generally intended to offer interest rates that are lower than the prevailing commercial rates. A common feature of these loans is that the tax benefit is obtained from aggressive tax structuring is used to subsidise the borrower's cost of borrowing.	http://www.info.gov.za/speeches/2001/0107051145a1004.htm
Subscribe	A term that is used to refer to the act of buying a commodity, stocks or shares; the regular payment of money as a contribution to a project or fund; receiving or obtaining by regular payment.	http://wordnet.princeton.edu/perl/webwn?s=subscribe
Supply Chain Management	The delivery of customer and economic value through integrated management of the flow of physical goods and associated information, from raw materials sourcing to delivery of finished products to consumers.	http://www.ediuniversity.com/glossary/
Surplus	A quantity much larger than is needed	wordnet.princeton.edu/perl/webwn
Table (tabling) a budget	Presenting a proposed budget for approval to parliament, legislature or council	

Term	Explanation / Definition	Source
Tax Incidence	Distribution of the real burden of a tax.	highered.mcgraw-hill.com/sites/0072471123/student_view0/chapter33/key_terms.html
Tax Rebate	The refund of a tax that has been overpaid.	http://www-personal.umich.edu/~alandear/glossary/t.html
Term Loan	A loan intended for medium-term or long-term financing to supply cash to purchase fixed assets, such as machinery, landing or buildings, or to renovate business premises.	www.cbcs.org/servlet/ContentServer
Top Slice	This refers to the amount of money removed from the National Revenue Fund to pay for debt service and the contingency reserve, before the remainder is split between the tiers of government.	See chapter 6 of this guide
Trust Fund	A fund used to account for money and property held in trust by a district for individuals, government entities or non-public organizations; A fiduciary relationship calling for a trustee to hold the title to assets, usually monetary, for the benefit of the beneficiary.	http://www.google.co.za/search?hl=en&ie=ISO-8859-1&q=define%3A+trust+fund&meta=cr%3DcountryZA
Turn-around time	The time it takes for something (such as an economy, business venture, organisation etc.) to improve or reverse its current direction.	
UAC	Utilities, Agencies and Corporate entities	
Unappropriated Surplus	That portion of the surplus of a given fund that is not allocated for specific purposes.	http://www.code-co.com/utah/code/03/51-05.htm
Unfunded mandate	If municipalities (or provinces) are given responsibility for something without being given a budget to do the work, it is called an "un-funded mandate".	http://www.etu.org.za/toolbox/docs/localgov/webundrs/tdlocgov.html
Usufructuary	A legal term describing a situation wherein a person or company has a temporary right to use and derive income from someone else's property, provided that it isn't damaged.	http://www.answers.com/topic/usufruct-2?method=6
Utility	In economics, utility is a measure of the happiness or satisfaction gained from a good or service. The term is also used to refer to a measure that is to be maximised in any situation involving choice, as well as a company that performs a public service and is subject to government regulation.	http://en.wikipedia.org/wiki/Utility
Valuation	Determination or estimation of the value of an item	
Valuation Roll	A list of properties which are to be valued, e.g. for taxing purposes	-

Term	Explanation / Definition	Source
Vertical Division	The division of revenue between spheres of government.	
Vote	One of the main segments into which a budget of a municipality is divided for the appropriation of money which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.	MFMA Section 1
Ward Committee	The purpose of a ward committee is to get better participation from the community to inform council decisions; to make sure that there is more effective communication between the council and the community; and to assist the ward councillor with consultation and report-backs to the community. Ward committees should be elected by the community they serve. Ward committees have no formal powers but can advise the ward councillor or make submissions directly to council. It should also participate in drawing up the integrated development plan of the area.	http://www.etu.org.za/toolbox/docs/localgov/webundrs tdlocgov.html
Weighted Average Cost of Debt (WACD)	Indicates how much percent an entity is paying on its combined sources of debt.	
Working Capital	The excess of current assets over current liabilities. A provision for working capital should imply that the municipality ensures there is sufficient cash available to pay for the municipality's operations, even if all current liabilities should be paid immediately.	
Write-off	The stage at which a financial institution removes a bad or non-performing loan from the assets side of the balance sheet and shows it as a loss. This normally takes place after all attempts have been made to activate or collect a portion of the loan.	www.delawarecountybrc.com/glossaryterms.htm
Zero-based Budgeting	Costing each programme from activity level upwards for each budget cycle.	