

High level summary of MFMA Budget Circular 66 & 67 for 13/14 IDP

The following are extracts directly from MFMA Circular 66 & 67:

MFMA Circular No. 66 – 11 December 2012

The municipality ought to focus on **maximizing its contribution to job creation** by:

- Ensuring that service delivery and capital projects use labour intensive methods wherever appropriate;
- Supporting labour intensive LED projects;
- Participating fully in the Expanded Public Works Programme; and
- Implementing interns programmes to provide young people with on-the-job training.

It is important for municipalities to pay particular attention to:

- Ensuring the timely delivery of their capital programmes (eliminate under-spending of capital budgets) and to review all by-laws and development of approval processes with a view to removing any regulatory bottlenecks to investment and job creation;

Image of Local Government

The Local Government Budgets and Expenditure Review highlighted the burgeoning crisis in the **declining credibility** of local government.

In the short term, municipalities must demonstrate sound leadership and put in place measures to **address mismanagement** by implementing effective systems to measure, monitor and evaluate performance.

Procurement reforms and fighting corruption

Municipalities are again advised that the Supply Chain Compliance Unit will also be focusing on municipal procurement processes.

Measures will focus on, among others:

- Enforcement of the procurement of goods and services that are available in terms of Transversal Term Contracts;
- Consider the introduction of measures to evaluate the integrity and correctness on all major contracts;
- **Price benchmarking**;
- Encourage the enforcement of **remedial actions** (penalties, litigations, restrictions etc.) on all suppliers that act fraudulently; and
- Refinement to the register for **tender defaulters** and the database of **restricted supplies** which must be checked prior to awarding of contracts in order to ensure that no restricted companies are awarded contracts

Taking the 2011 Local Government Budgets and Expenditure Review forward

One of the key outputs for National Treasury is the biennial production of the “Local Government Budgets and Expenditure Review”. The purpose of such a review as suggested by the title is to highlight over a seven year period the trends in local government budgets and expenditure according to certain strategic and thematic areas. This enables National Treasury and other users of the publication, such as Parliament, to measure progress made by local government in the fulfilment of its mandate while at the same time highlighting those areas where challenges still exist.

The *Review* highlights the following areas as requiring particular attention by municipalities:

v. **Spending on non-priorities** – Many municipalities spend significant amounts on non-priority items including unnecessary **travel, luxury furnishings, excessive catering and unwarranted public relations projects. Consultants** are often used to perform routine tasks. Considering the pressurised economic climate continued spending on **non-priority wants cannot be sustained**.

Local government equitable share formula review and 2011 Census

The formula will provide funds for the institutional costs of municipalities and, for the first time, will explicitly allocate funds for non-trading services, such as **municipal roads and fire services**.

Local government conditional grants and additional allocations to local government

In 2013/14, a **new direct grant for water infrastructure** administered by the Department of Water Affairs will enable the department to help municipalities deliver clean drinking water to households.

Council oversight over the budget process

In terms of section 4(2)(a) of the Municipal Systems Act the council has a duty “**to use the resources of the municipality in the best interests of the local community**”. This duty is extended to individual councillors through the *Code of Conduct for Councillors*, which states:

2. **General conduct of councillors.** – A councillor must –

- (a) perform the functions of office in good faith, honestly and in a transparent manner; and
- (b) at all times act in the best interests of the municipality and in such a way that the credibility and integrity of the municipality are not compromised.

Therefore, each council has a duty to put in place policies and processes to:

- (a) **Prevent** unauthorised, irregular and fruitless and wasteful expenditure;
- (b) **Identify and investigate** unauthorised, irregular and fruitless and wasteful expenditure; and
- (c) **Respond** appropriately, and in accordance with the law, to confirmed instances of unauthorised, irregular and fruitless and wasteful expenditure.

As part of the 2013/14 budget process municipalities are strongly advised to ensure that the necessary policies and processes are institutionalised in proactively curbing prohibited expenditure;

Funding choices and management issues

Municipalities are once again reminded that given on-going economic pressures, the revenueside of municipal budgets will continue to be constrained, so they will again need to makesome very tough decisions on the expenditure side this year. **Priority still needs to be given:**

- Ensuring that **drinking water** and **waste water** management meets the required quality standards at all times;
- Protecting the **poor**;
- Supporting meaningful local economic development (**LED**) **initiatives** that foster micro and small business opportunities and job creation;
- Securing the health of their **asset base** (especially the municipality's revenue generating assets) by increasing spending on repairs and maintenance;
- Expediting spending on **capital projects** that are funded by conditional grants; and
- Ensuring that borrowed funds are invested in revenue generating assets as part of the capital programme.

Eliminating non-priority spending

The *2012 Medium-term Budget Policy Statement* (MTBPS) highlighted the need for resource allocation to be prioritised in expanding public-sector investment. The MTBPS further emphasises the need for government to step up its efforts to combat waste, inefficiency and corruption. Municipalities must therefore pay special attention to **controlling unnecessary spending on nice-to-have items and non-essential activities**.

To illustrate the point, it has come to the attention of National Treasury that municipalities are incurring excessive expenditure on membership and other related costs associated with ***The South African Municipal Sports and Recreation Association (SAMSRA)***. SAMSRA is an organisation catering for the physical, emotional and psychological well-being of local government practitioners, including councillors. Spending excessive amounts on travelling, accommodation and entertainment related to SAMSRA is totally unacceptable and could be classified as fruitless and wasteful expenditure.

The following additional **examples of non-priority expenditure** have been observed, and municipalities are reminded that they **need to be eliminated**:

- i. excessive **sponsorship of music festivals, beauty pageants and sporting events**, including the purchase of tickets to events for councillors and/or officials;
- ii. **public relations projects and activities that are not centred on actual service delivery** or are not a municipal function (e.g. **celebrations; gala dinners; commemorations, advertising and voter education**);
- iii. **LED projects that serve the narrow interests** of only a small number of beneficiaries or fall within the mandates of other government departments such as the Department of Agriculture;
- iv. **excessive catering** for meetings and other events, including the use of public funds to buy alcoholic beverages;
- v. arranging **workshops and events at expensive private venues**, especially ones outside the municipality (**as opposed to using the municipality's own venues**);

- vi. **excessive printing costs** (instead of maximising the use of the municipality's website, including providing facilities for the public to access the website);
- vii. excessive **luxurious office accommodation and office furnishings**;
- viii. **foreign travel** by mayors, councillors and officials, particularly 'study tours';
- ix. **excessive councillor and staff perks** such as luxurious mayoral **cars and houses, notebooks, IPADS and cell-phone allowances; travel and subsistence allowances**. Municipalities are reminded that in terms of section 7 (1) of the Remuneration of Public Office-bearers Act, 1998 (Act No.20 of 1998) the Minister for Cooperative Governance and Traditional Affairs must determine the limit of salaries and allowances of the different members of municipal councils and any budget provision may not be outside this framework;
- x. **excessive staff in the office of the mayor** – particularly the appointment of political 'advisors' and 'spokespersons';
- xi. all **donations to individuals** that are not made in terms of the municipality's indigent policy or a bursary scheme; for instance donations to cover funeral costs (other than pauper burials which is a district municipality function);
- xii. costs associated with **long-standing staff suspensions** and the **legal costs** associated with not following due process when suspending or dismissing staff, as well as payment of severance packages or 'golden handshakes'; and
- xiii. **the use of consultants** to perform routine management tasks, and the payment of excessive fees to consultants.

Budget management issues dealt with in previous MFMA Circulars

1. **Mayor's discretionary funds and similar discretionary budget allocations** – National Treasury regard allocations that are not designated for a specific purpose to be bad practice and discourage them (refer to MFMA Circular 51).
2. **Unallocated ward allocations**– National Treasury does not regard this to be a good practice, because it means that the tabled budget does not reflect which ward projects are planned for purposes of public consultation and council approval (refer to MFMA Circular 51).
3. **New office buildings**– Municipalities are required to send detailed information to National Treasury if they are contemplating building new main office buildings (refer to MFMA Circular 51).
5. **Providing clean water and managing waste water**– Municipalities are reminded to include a section on 'Drinking water quality and waste water management' in their 2013/14 budget document supporting information (refer to MFMA Circular 54).

MFMA Circular No. 67 – 12 March 2013

1 Key focus areas for the 2013/14 budget process

Expenditure-control systems across government will be revised over the period ahead. There will be **tighter rules for intergovernmental transfers**, especially for infrastructure projects.

Measures will be taken in supply chain management to make it harder for tender processes to be manipulated and to **avoid situations where government pays above-market prices** for goods and services, including local government.

Considering the accountability cycle of local government, municipalities are urged to carefully consider the objectives of the **NDP and National Growth Path**. As a sphere of government, municipalities are required to **incorporate the objectives of these initiatives after consideration of the Spatial Development Frameworks (SDF) into their Integrated Development Plan (IDP)** which should directly inform prioritised budget allocations within the medium-term revenue and expenditure framework (MTREF) of each municipality.

Local government must ensure that **efficiency gains, eradication of non-priority spending and the prioritisation of expenditure relating to core infrastructure inform the next planning framework** of all municipalities.

2 Division of Revenue Bill 2013

2.1 Additional allocations to local government 2013

Local government allocations receive additional funds to address among others:

- Expand the collection and use of data on the condition of **municipal roads**;
- Increasing the **number of interns** with infrastructure-related skills working in municipalities;

2.2 Impact of Census 2011

Some provinces recorded significantly smaller populations in the 2011 Census than had been previously estimated, including KwaZulu-Natal, Eastern Cape, **Limpopo** and the Free State.

Transfers to municipalities will significantly be affected by this data as the data used in the local government equitable share and municipal infrastructure grant have been updated to reflect these changes.

2.3 Local Government Equitable Share Review

The local government equitable share is an unconditional transfer that supplements the income that municipalities can raise from the sources of own revenues available to them. The equitable share provides funding for municipalities to deliver free basic services to poor households and **subsidises the cost of administration and other core services for those municipalities that have the least potential to cover these costs from their own revenues.**

The local government equitable share formula uses demographics and other data to determine each municipality's share of the local government equitable share.

The second part enables municipalities with limited own resources to **afford basic administrative and governance capacity and perform core municipal functions.** It does this through three components:

- The **institutional component** provides a subsidy for basic municipal administrative costs.
- The **community services component** provides funds towards the provision of core municipal services not included under basic services.
- The **revenue adjustment factor** ensures that funds from this part of the formula are only provided to municipalities with limited potential to raise own revenues. Municipalities least able to fund these costs from their own revenues should receive the most funding.

The threshold for receiving free basic services rises from R800 per month (in 2001 prices) to R2 300 per month (in 2011 prices). The formula also provides funds for the **institutional costs of municipalities and for community services; such as parks, recreation and fire fighting.**

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