

Counting the cents

Municipal budgets and mayors' responsibilities under the MFMA

A new era has dawned in municipal finances with the enactment of the Municipal Finance Management Act 56 of 2003 (MFMA). The main objective of the MFMA is to ensure sound and sustainable financial management. In short the MFMA will pave the way for three-year budget planning on capital appropriations. It will provide for more strategic budgeting and will deepen the budgetary process in municipalities by making community involvement compulsory. The new budgetary process cements the connection between budgets and integrated development plans (IDPs), which should be regarded as municipalities' business plans.

Budget preparation process

The mayor plays the key role in coordinating processes for preparing and reviewing the budget and the IDP. It is important that there is a consistent and credible connection between the IDP and the budget. The process must begin in September every year with the review of the IDP, in

which there must be community participation. In preparing the budget the mayor must refer to:

- the municipality's IDP;
- national and provincial budgets;
- national government's fiscal and macro-economic policy;
- the Annual Division of Revenue Act (DORA);

- any agreements reached in the Budget Forum;
- the provincial treasury and, when requested, the national treasury;
- the local municipalities in a district's area; and
- in case of a local municipality, the district and the other local municipalities within the district.

The MFMA encourages a more integrated approach to budgets and to this end, the mayor is obliged to supply budgetary information on request to:

- the national treasury;
- the national departments responsible for water, sanitation and electricity;
- other departments dealing with services;
- provincial or national organs of state; and
- other municipalities affected by the budget.

Annual budgets

By 1 April the mayor must table the annual budget at a council meeting. It may include appropriation for capital expenditure for a period not exceeding three years, as long as a separate appropriation is made for each of those financial years. It is important that the budget sets out the realistic anticipated income and expenditure of the municipality and identifies each revenue source. A clear division must be made between the capital and operational budgets and the budget must be accompanied by draft resolutions on municipal taxes, rates and tariffs. This means that municipalities should have tariff and rates policies in place before the tabling of the budget.

Consultation on tabled budget

The Act requires a council to consider the views of the local community. In some municipalities the mayor will conduct a road show with the budget or undertake a 'listening campaign' in communities. The mayor then has the opportunity to respond to all submissions and questions and, if necessary, to revise the budget and table the amended budget for council's consideration. In terms of the Act, the national treasury may issue guidelines on the manner in which a municipal council should process the budget, which may include forming a committee and holding

public hearings. These guidelines will only be binding on a municipality if the council adopts them. No guidelines have been issued yet.

After the consultation process, the mayor must take all reasonable steps to ensure that the municipality approves the annual budget before the start of the financial year. Within 28 days of the budget's approval, the mayor must approve the municipality's service delivery and budget implementation plan. As the guardian of performance management in the municipality, the mayor must ensure that the annual performance agreements of the municipal manager and the senior managers comply with the MFMA and the Systems Act and are linked to measurable performances objectives. Any delays in tabling the budget, approving the service delivery plan and budget implementation plan or signing annual performance agreements must be reported to the municipal council and the MEC for Finance without delay.

Notification to public

The MFMA advocates transparency and openness in municipal finances and obliges the mayor to make the following documentation public within 14 days of the approval of the budget implementation plan and the service delivery plan:

- monthly revenue and expenditure projections;
- quarterly service delivery targets and performance indicators; and
- performance agreements for municipal managers and senior managers.

This measure will help to keep the mayor accountable to the electorate on the overall performance of the municipality.

key points

- Preparation of the budget starts with reviewing the IDP in September.
- The Act advocates transparent and accountable financial management.

Decision-making

In the case of a municipality with an executive committee system, the mayor must make all decisions in terms of the Act in consultation with the members of the executive committee.

Assessment

As the political head of the municipality, the mayor provides political guidance on its fiscal and financial affairs. The provisions of the Act are very detailed and prescriptive and mayors must familiarise themselves with them. Failure to do so may result in grave consequences for both mayors and municipalities, as will be seen in the next issue of the *Local Government Bulletin* which will discuss the municipal adjustment budget and the consequences of a failure to approve a budget.

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The MFMA will be phased in from 1 July 2004. Please see our website for details.