

# BUDGET FACT SHEET 1

## The Local Government Budget Process & the City of Cape Town

The City of Cape Town Budget is an extremely important document because it lays out the City's plans for how it will raise funds and spend money in the upcoming year.

This fact sheet tells you how local governments are required by law to involve communities in the annual budget process, as well as in the broader development planning for the City. It also gives you specific details of when and where you can be a part of the process of setting priorities and monitoring government delivery of services to our communities.

NDIFUNA  
UKWAZI  
DARE TO KNOW

# 1 WHERE DOES MONEY FOR THE CAPE TOWN BUDGET COME FROM?

Local government budgets are divided into two parts:



**OPERATING BUDGET**



**CAPITAL BUDGET**

DEFINITION

The **operating** side of the budget covers the daily items.

The **capital** side of the budget includes expenditure for large permanent items.

EXAMPLES

Salaries, travel, catering, training and other daily costs.

Roads, buildings, equipment, bridges, houses, street lights, sidewalks and paving.

MAIN SOURCE

Service charges for water, refuse removal, electricity and sewage/sanitation. Property rates. Large grant from national government called the Equitable Share.

Loans, conditional grants from national and provincial government, development charges and other small taxes collected by the Municipality.

### REVENUE:

Income or funding source 'where the money comes from'

### EXPENDITURE:

Item which the budget buys 'what the money is spent on'

## FOR EXAMPLE

If we look at the health sector, funds spent to build a new hospital would be found on the capital budget, while money used to buy ARV medicines or pay doctors' salaries would be located in the operating budget.

## 1 OPERATING BUDGET

The total **operating budget** for Cape Town in 2011/12 is

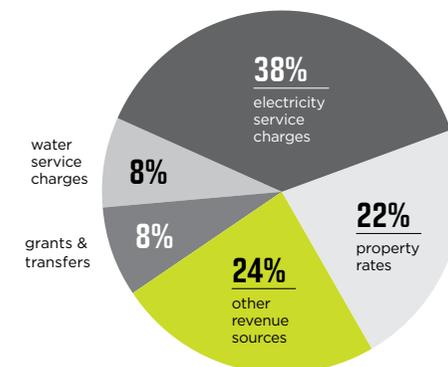
**R21.06 BILLION**

eg. wages, catering, training

Most of the money for the **operating budget** for the City of Cape Town comes from electricity charges. In 2011/12, R8.3 billion or 38% of the operating budget came from **electricity charges**.

The second biggest source of operating funds is **property rates** which contribute R4.7 billion or 22% of the operating budget. R1.7 billion of the operating budget comes from **grants** from national and provincial government.

SOURCES OF THE OPERATING BUDGET 2011/12<sup>2</sup>



# 2

## ② CAPITAL BUDGET

The total **capital budget** for Cape Town in 2011/12 is

**R4.6 BILLION**

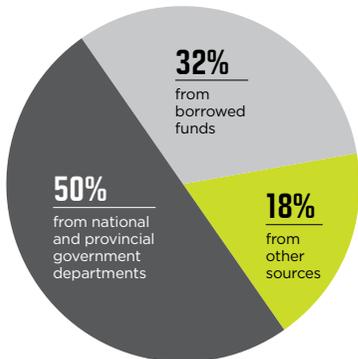
eg. roads, buildings, houses

Money for the **capital budget** comes from three main sources of revenue:

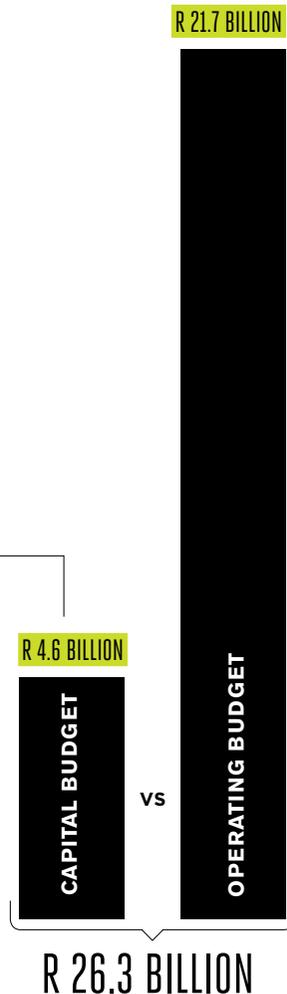
1. Conditional grants from provincial and national government.
2. Money which the City borrows (from private capital markets or from development institutions).
3. Funds which the City raises itself through different types of taxes.

Some examples of major capital projects would be the construction of a new waste water treatment plant, or the upgrading of an existing waste water treatment plant.

SOURCES OF THE CAPITAL BUDGET 2011/12<sup>1</sup>



In 2011/12, Cape Town received R2.3 billion from national and provincial government departments for its capital budget, or 50% of its total capital budget. 32% of the capital budget came from borrowed funds.



# 3

## WHAT DOES THE LAW SAY ABOUT HOW MUNICIPALITIES MUST DRAW UP THEIR BUDGETS?

Through the City's annual budget process, decisions are made about how the revenue raised by the City will be divided between different expenditure items.

The law sets out requirements for the budget process for local government, including time deadlines and specific roles and responsibilities for the Mayor, Municipal Manager, Council and other spheres of government.

### FINANCIAL YEAR

The **financial year** for local government **starts 1 July** and ends 30 June.

For example, the 2012/13 financial year will start 1 July 2012.



### 31 AUGUST

According to the **Municipal Finance Management Act (MFMA)**, the Mayor must present Council with a time schedule for the preparation of the budget by 31 August each year.<sup>3</sup>

### AUGUST - NOVEMBER

Between August and November of each year, the municipality works to review the **Integrated Development Plan (IDP)** and municipal policies, and to prepare the budget. (See section 4 below for more information on the IDP).

### 31 MARCH

By 31 March, three months before the start of the financial year on 1 July, the draft annual budget must be tabled, or presented, to the Council.

The draft annual budget includes anticipated revenue and projected expenditure for the next financial year, plus the two following years. The **Draft Budget** must be credible, and include forecasts of future revenue which are realistic.<sup>4</sup>

## MUNICIPAL FINANCE MANAGEMENT ACT



The **Municipal Finance Management Act** (No. 56 of 2003) is the main piece of legislation governing the management of financial affairs of municipalities. It speaks about municipal sources of revenue, budgets, debt, financial reporting requirements, financial misconduct, and the roles of councillors, mayors and other key players.



### APRIL

*Immediately* after the Draft Budget is tabled, it must be made public along with all the accompanying documentation, and the municipality must invite the local community to express their views on the budget.<sup>5</sup>

### APRIL - MAY

The municipality is required by law to consider the views of the local community on the Draft Budget. Therefore during this period (April and May), the City will run **public engagement processes** and give individuals and organisations the opportunity to submit written input to the City on the Draft Budget. The Council must consider these submissions and revise the budget if necessary.<sup>6</sup>

### 1 JUNE

By 1 June (one month before the start of the financial year), the Council must take a vote on whether it approves the Draft Budget. If the annual budget is *not* approved by the Council, the Municipal Manager must rework the budget and table a revised version to Council within one week.<sup>7</sup>

### 30 JUNE

The law says that the municipal budget must be approved by 30 June (before the start of the municipal financial year on 1 July) and must be published on the municipal website within 5 days of approval.

### 30 JUNE - 28 JULY

The Council must also approve the **Service Delivery Budget Implementation Plan (SDBIP)** within 28 days of the approval of the budget.<sup>8</sup>

### 1 AUGUST

**Performance agreements** for top managers at the municipality are concluded within one month of the start of the financial year (i.e. by 1 August)<sup>9</sup> and are made public within 14 days after approval of the SDBIP.<sup>10</sup>

# 4 WHAT IS MEDIUM-TERM BUDGETING & HOW DOES IT WORK?

It's important to know that South Africa uses a particular approach to budgeting called a **medium-term expenditure and revenue framework (MTREF)**. Each year when the municipality publishes the annual budget, it provides figures for a three-year period. However the Council only votes on and approves the figures for the *first* year of the three-year spending plan.

This approach allows government to take a medium-term, forward-looking view of available resources and budgeting requirements. At the same time, the annual approval of only one year means that funds are authorised only when there is more certainty of their availability (which is dependent on macro-economic conditions), and of policies and spending demands.

**“EACH YEAR WHEN THE MUNICIPALITY PUBLISHES THE ANNUAL BUDGET, IT PROVIDES FIGURES FOR A THREE-YEAR PERIOD. HOWEVER THE COUNCIL ONLY VOTES ON AND APPROVES THE FIGURES FOR THE FIRST YEAR OF THE THREE-YEAR SPENDING PLAN.”**

# HOW DOES THE INTEGRATED DEVELOPMENT PLAN (IDP) LINK WITH THE ANNUAL BUDGET?

Municipalities are responsible for municipal planning, which includes planning related to the spatial, economic and social development of the municipality.

**The main planning tool for municipalities is called the Integrated Development Plan (IDP).** According to the Municipal Systems Act (MSA), after local government elections, the new Council must adopt an IDP, which is a 5-year plan for the development of the municipality.<sup>11</sup>



# 5

THE BUDGET IS BASED ON THE IDP, WHICH MEANS THAT THE PRIORITIES WHICH ARE IDENTIFIED IN THE IDP SHOULD BE THE SAME PRIORITIES WHICH RECEIVE FUNDING IN THE BUDGET.



Each year, the IDP must be reviewed and updated, in combination with the development of the annual budget.<sup>12</sup>

The Budget is based on the IDP, which means that the priorities which are identified in the IDP should be the same priorities which receive funding in the Budget. The Budget ensures that the service delivery objectives contained in the IDP receive the financial resources which are needed in order for the services to be delivered properly.

On 1 July 2007, the City implemented a new five-year IDP for the period July 2007 to June 2012, to inform and guide the Councillors. Every year, in conjunction with the budget-drafting process, the City conducted an annual review of the 5-year IDP.

Given that local government elections took place in May 2011 and a new Council came into office thereafter, the City is now working to develop a **new** five-year IDP which will cover the years 2012/13-2016/17 (starting July 2012 and ending June 2017).

*The current 5 year integrated development plan (IDP) runs from*

**JULY 2007 - JUNE 2012**

*The City is now working to develop a new five-year IDP which will cover the years*

**2012/13 - 2016/17**

**Therefore at the beginning of 2012, there is a very important opportunity for citizens to provide their views and help shape the direction of the City. Usually, the City is only doing an annual review of an existing IDP which covers 5 years. But in early 2012, the City is creating a whole new IDP which will cover 2012/13 to 2016/17.**

# 6 WHAT IS THE SERVICE DELIVERY IMPLEMENTATION PLAN (SDBIP)

AND WHY IS IT IMPORTANT TO LOCAL COMMUNITIES?

The IDP is a high-level document which says what we want to do, and the Budget says how much money each department and project will receive. There is a third important document called the **Service Delivery Budget Implementation Plan (SDBIP)** which is a practical, detailed plan that says exactly what the municipality intends to do, by when, and how much it will spend to do it.

The law requires the SDBIP to have 5 parts:

1. Monthly projections of revenue to be collected for each source
2. Monthly projections of expenditure (operating and capital) and revenue for each vote
3. Quarterly projections of service delivery targets and performance indicators for each vote (Including non-financial measures, targets for reduction in backlogs of basic services).
4. Ward information for expenditure and service delivery
5. Detailed capital works plan broken down by ward over three years.

**The SDBIP is important because it allows us to measure how the municipal government performs against annual service delivery targets and budget allocations.**

The Executive Mayor must approve the SDBIP within 28 days after the approval of the budget. Within 14 days of the approval of the SDBIP, the revenue and expenditure projections for each month and the service delivery targets and performance indicators as set out in the SDBIP must be made public.



For example, one of the indicators listed in the 2011/12 SDBIP is 'The number of sanitation service points (toilets) installed for informal settlement customers' (Indicator 2A.2). The annual target is 2000 toilets to be installed in 2011.

This annual target is further broken down into quarterly targets as follows:

DATE	NO. OF TOILETS TO BE INSTALLED
30 SEPT 2011	500
31 DEC 2011	500
31 MAR 2012	500
20 JUNE 2012	500

Source: Cape Town 2011-2012 SDBIP, pg. 6 & 9

# 7 HOW, AND WHEN, CAN WE PARTICIPATE IN THE BUDGET PROCESS FOR OUR CITY?

There are two primary windows for community engagement in the development of the City's IDP and Draft Budget.



The first opportunity was in July/August 2011 when public meetings were held on the Draft IDP.



The second opportunity is in March/April 2012, when public hearings will be held on the Draft Budget.

**Turn over to see the steps of the process for the development of the 2012/13 Annual Budget (for the financial year starting 1 July 2012) and the new IDP for the period 2012/13 to 2016/17.**

# 8 WHAT DOES THIS MEAN FOR CBOS, NGOS & OTHER INTERESTED PEOPLE?

South African law requires local governments to involve local communities in the budget process, which means that residents **must** be allowed to have a say in how money is collected in taxes—such as service charges for electricity and water, and property rates—and how money is spent on different projects and programmes throughout the City.

In early 2012 there is a special opportunity to feed into the planning which the City is doing FOR THE NEXT FIVE YEARS, up to 2017. Between March and May 2012 watch for notices in newspapers, CCT website and notice-boards on public hearings on the draft IDP and budget. You can make your input:

- Verbally at a public meeting
- By email, to the address given on the CCT website
- By SMS or fax (the CCT website will provide the correct contact details)
- By sending a written submission or letter to the City

Finally, once the annual budget is approved, the law requires the City to make the budget and other important information on service delivery available to the public. CBOs and NGOs can use this information to monitor whether the City is spending the money as it said it would, and whether services are being provided to communities as was promised.



Residents must be allowed to have a say in how money is collected in taxes—such as service charges for electricity and water, and property rates—and how money is spent on different projects and programmes throughout the City.

## REFERENCES:

1. City of Cape Town 2011/12 Adjustments Budget and MTREF, pg.19.
2. City of Cape Town 2011/12 Adjustments Budget and MTREF, pg.17.
3. Municipal Finance Management Act (Act 56 of 2003), Section 21.
4. MFMA, Sections 16 and 17.
5. MFMA, Sections 22 & 23.
6. MFMA, Section 23.
7. MFMA, Sections 24 and 25.
8. MFMA, Section 53.
9. Municipal Systems Act (Act 32 of 2000), Section 57.
10. MFMA, Section 53.
11. MSA, Section 25.
12. MSA, Section 34.

*This Budget Fact Sheet was produced with support from the Centre on Budget and Policy Priorities (CBPP) through a grant from the International Budget Partnership of the CBPP.*



**NDIFUNA UKWAZI**  
www.nu.org.za  
Office 203,  
47 on Strand  
Strand Street,  
Cape Town 8001  
021 423 3089



**Social Justice Coalition**  
www.sjc.org.za  
SHAWCO Centre K2,  
G323 Mongezi Road,  
Khayelitsha,  
Cape Town, 8000  
021 361 8160 | 0744178306