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PROVINCIAL TREASURY



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Date: 15 December 2011
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**TO: MUNICIPAL MANAGERS
CHIEF FINANCIAL OFFICERS
KWAZULU NATAL MUNICIPALITIES**

PROVINCIAL TREASURY CIRCULAR TC/RM 3 OF 2011/12

SUBMISSION AND PUBLICATION OF 2011/12 MID-YEAR BUDGET/PERFORMANCE ASSESSMENT AND 2011/12 ADJUSTMENT BUDGET

This circular provides guidance to municipalities for the preparation of their 2011/12 Mid-year Performance Assessment and the Adjustment budget.

1) 2011/12 Mid-Year Budget and Performance Assessment

In terms of Section 72(1) of the Municipal Finance Management Act (MFMA) (Act No. 56 of 2003), the accounting officer of a municipality must by 25 January of each year; assess the performance of the municipality during the first half of the financial year and submit such report on to the mayor of the municipality, the National Treasury and the relevant provincial treasury.

Furthermore; Section 72(3) of the MFMA further states that the accounting officer must, as part of the review, must make recommendations as to whether an adjustments budget is necessary; and recommend revised projections for revenue and expenditure to the extent that this may be necessary.

The Mid-year budget and performance assessment must be in the format prescribed in the Municipal Budget and Reporting Regulations. Refer to Provincial Treasury Circular TC/RM 2 of 2011/12 for further details in this regard.

To conduct the Mid-year budget and performance assessment, the following documents should be taken into account as required by Section 71(1) of the MFMA:

- (i) the monthly statements referred to in section 71 for the first half of the financial year;
- (ii) the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan;
- (iii) the past year's annual report, and progress on resolving problems identified in the annual report; and
- (iv) the performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities.

An accounting officer will as part of the review make recommendations as to whether an adjustments budget is necessary.

2) 2011/12 Adjustment Budget Process

An Adjustments budget should be prepared in terms of Section 28 of the MFMA, which states that, *a municipality may revise an approved annual budget through an adjustments budget. An adjustments budget –*

- a) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;*
- b) may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;*
- c) may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;*
- d) may authorise the utilisation of projected savings in one vote towards spending under another vote;*
- e) may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when current year was approved by the council;*
- f) may correct any errors in the annual budget; and*
- g) may provide for any other expenditure within a prescribed framework.*

The adjustments budget must be in the format prescribed in the Municipal Budget and Reporting Regulations. Refer to Provincial Treasury Circular TC/RM 2 of 2011/12 for further details in this regard.

Section 22 of the Budget and Reporting Regulations further states that **(1) an adjustment budget of a municipality must be appropriately funded** and that (2) the supporting documentation to accompany an adjustment budget in terms of section 28(5) of the Act must contain an explanation of how the adjustment budget is funded.

When making adjustments and virements in the annual budget, the municipality should consider MFMA Circular 51 which requires that virements be made in accordance with approved municipality's virements policy and the following principles should be adhered to:

- Virements should not be permitted in relation to the revenue side of the budget;
- Virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes);
- Virements from the capital budget to the operating budget should not be permitted;
- Virements towards personnel expenditure should not be permitted;
- Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT;
- Virements should not result in adding 'new' projects to the Capital Budget;
- Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted; and
- There should be prudent limits on the amount of funds that may be moved to and from votes and sub-votes (e.g. not more than 5 per cent of the budget may be moved to or from a vote, programme, project etc.).

Furthermore; Section 23(3) of the Budget and Reporting Regulations requires that if a national or provincial adjustments budget allocates or transfers additional revenues to a municipality, the mayor of the municipality must, at the next available council meeting, but within 60 days of the approval of the relevant national or provincial adjustments budgets, table an adjustments budget referred to in section 28(2) (b) of the Act in the municipal council to appropriate these additional revenues.

To this end, Provincial Treasury will make available to all municipalities the 2011 Adjustments Estimate of National Expenditure and the 2011 Provincial Adjustments Estimate after they have been tabled. Municipalities should take note of the adjustments to the allocations and ensure that the relevant adjustments are reflected in the 2011/12 adjustments budget.

An adjustments budget may then be tabled in the municipal council at any time after the Mid-Year Budget and Performance Assessment is tabled in Council, **but not later than 28 February** as required by Section 23(1) of the Budget and Reporting Regulation,

3) Templates, Submission and Publication of the 2011/12 Mid-year Performance Assessment and 2011/12 Adjustment Budget

Provincial Treasury Circular TC/RM 2 of 2011/12 provides information on the following in respect of the Mid-year budget performance assessment and Adjustments budget:

- The templates that should be used;
- The dates and addresses of when and where it should be submitted and;
- The returns that should be completed and submitted.

The onus rests with the Accounting Officer to ensure that the municipality fully complies with all the reporting requirements.



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