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TO: MAYORS

MUNICIPAL MANAGERS

CHIEF FINANCIAL OFFICERS

PROVINCIAL TREASURY CIRCULAR PT/MF 8 OF 2017/18

PREPARATION, SUBMISSION AND PUBLICATION OF THE 2018/19 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) BUDGET

The objectives of this circular are:

- To draw the attention of municipalities to the legislative requirements regarding the preparation of the 2018/19 MTREF Budget, and to guide and support municipal officials in their responsibility to prepare reliable, credible and funded budgets to be approved by Council;
- To inform municipalities of Provincial Treasury's intention to undertake an assessment of their 2018/19 MTREF Budgets to be tabled in terms of Section 16(2) and submitted in terms of Section 22(b)(1) of the Municipal Finance Management Act, Act No. 56 of 2003 (MFMA);
- To remind municipalities of the requirements of Section 23(1)(b) of the MFMA for Council to consider any views of the Provincial Treasury on the budget and that Provincial Treasury intends to engage with all municipalities on their views, in line with Provincial Treasury Circular PT MF 4 of 2017/18 *Time Schedule Outlining Key Deadlines for the 2018/19 MTREF Budget*, prior to the budget being approved by Council;
- To inform municipalities of the availability of officials from Provincial Treasury to provide technical support on the preparation of the budget prior to the tabling of the Draft Budget to Council;
- To circulate a Budget Preparation Process Checklist which will be useful in assessing the compliance of the budget with the requirements of the MFMA and Municipal Budget and Reporting Regulations (MBRR) during the budget preparation process, refer to **Annexure A**;
- To circulate the minimum information required as supporting evidence for the preparation of a budget, refer to **Annexure B**. This will assist municipalities to document the evidence for all sources of information used in the compilation of the budget;
- To circulate the basic content and information which the 2018/19 MTREF Budgets are expected to include as per the requirements of the MBRR, refer to **Annexure C**;
- To alert municipalities of the 2018 Division of Revenue Bill (DoRB) reflecting allocations from National Government for consideration and incorporation by municipalities in their 2018/19 MTREF

Budgets; and

- To remind municipalities of the areas of weakness and common errors noted by both Provincial and National Treasuries in previous budget assessments, with the intention of municipalities addressing these weaknesses and errors (where applicable) in their 2018/19 MTREF Budgets.

This circular complements MFMA Circular No. 89 dated 8 December 2017 on the 2018/19 MTREF Budgets issued by National Treasury. In the process of compiling their budgets, it is important that municipalities consider the State of the Nation Address, the National Budget Speech and other National Directives as well as the Provincial Directives such as the State of the Province Address by the Premier and the Provincial Budget speech by the MEC for Finance.

The following areas are covered in this circular:

- A. Preparation of the 2018/19 MTREF Municipal Budgets;
- B. Format Requirements for the 2018/19 MTREF Municipal Budgets;
- C. Funding Position of the 2018/19 MTREF Municipal Budgets;
- D. Technical Assistance on the 2018/19 MTREF Draft Budgets;
- E. Engagement with municipalities on the 2018/19 MTREF Tabled Budgets;
- F. Submission of the 2018/19 MTREF Municipal Budgets;
- G. Publication of the 2018/19 MTREF Municipal Budgets;
- H. 2018/19 MTREF Municipal Budget Verification Process;
- I. Budget Steering Committee (BSC);
- J. Service Delivery and Budget Implementation Plans (SDBIPs);
- K. National and Provincial Transfers to Municipalities;
- L. Further matters for consideration in the 2018/19 MTREF Municipal Budget Process; and
- M. Budget Submission Process.

A. Preparation of the 2018/19 MTREF Municipal Budgets

The following is intended to guide municipalities to streamline their budget preparation process and to provide appropriate and relevant information required by the Provincial Treasury for the purpose of monitoring and evaluating the preparation of the 2018/19 MTREF Municipal Budgets.

Municipal Standard Chart of Accounts (mSCOA)

Version 6.2 of the chart is effective from the 2018/19 financial year and **must be** used to compile the 2018/19 MTREF Budget. It is imperative that all municipalities prepare their 2018/19 MTREF Budgets in their financial systems and that the A1 Schedule be produced directly from their financial system. This will greatly assist municipalities to prevent differences between the Council approved budgets and the mSCOA budget data strings.

Municipalities are also reminded to review and update their budget related policies such as the virements policy, as per the guidance provided in MFMA Circular No. 89, during the preparation and approval of the

2018/19 MTREF Budget to align to mSCOA.

Budget Preparation Process Checklist

Provincial Treasury has attached a Budget Preparation Process Checklist as **Annexure A**, which will assist in assessing the extent to which municipalities have complied regarding the processes involved in the Budget preparation as governed by the MFMA and MBRR. The key focus areas listed in this Checklist are not exhaustive; therefore, municipalities are required to not rely solely on these areas but to introduce more measures when assessing their level of compliance in terms of their budget preparation process.

The Municipal Budget Working Paper File

The Municipal Budget Working Paper File is a set of workings and supporting documents which is prepared, referenced and arranged in order to enable the municipality to support the figures and assumptions contained in the budget.

The file should streamline the budget process and address many of the queries which arise during the annual budget review process by National and Provincial Treasuries. The content of the file will enable a meaningful and constructive annual budget evaluation process.

The order of documentation contained in the file should follow the order of information as it appears in the A1 Schedule in terms of the MBRR.

Guidance is hereby provided as to the content of the Municipal Budget Working Paper File, which may vary from municipality to municipality. The Chief Financial Officer (CFO) should provide overall guidance on the final content of the file. The information contained in the file should support the figures in the Tabled and Approved Municipal Budgets.

The CFO should sign off on the content of the file and thereafter an official from the Budget and Treasury Office should be delegated the task to co-ordinate the compilation of the file under the supervision of the CFO. The preparation of the file must coincide with the approved *Time Schedule Outlining Key Deadlines* for the preparation, tabling and approval of the annual budget. Once completed, the file should be reviewed and verified by the CFO. A copy of the file should be retained by the Mayor and Municipal Manager for record and reference purposes.

Annexure B provides details of the minimum information to be included in the file. It is at the discretion of the municipality to include any further supporting documentation that it may deem relevant to include in the file.

B. Format Requirements for the 2018/19 MTREF Municipal Budgets

Section 17(1) of the MFMA states that, *an annual budget of a municipality must be a schedule in the prescribed format*. Regulation 9 of the MBRR further prescribes that *the annual budget and supporting documentation of a municipality must be in the format specified in Schedule A and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of Section 168(1) of the Act*.

National Treasury has released Version 6.2 of the A1 Schedule (in Excel Format) to be used for the compilation of the 2018/19 MTREF Budget which incorporates all the relevant amendments. Municipalities are referred to MFMA Circular No. 89 to note all the amendments that have been incorporated into Version 6.2.

ALL municipalities MUST therefore use this version in the preparation of their 2018/19 MTREF Budgets to be tabled on or before 29 March 2018. This version can be downloaded from the National Treasury Website

using the following link:

www.treasury.gov.za/Legislation/MFMA/Regulations_and_Gazettes/Municipal_Budget_and_Reporting_Regulations

Furthermore, Regulation 14(1)(a) of the MBRR specifies that *an annual budget and supporting documentation tabled in a municipal Council in terms of Sections 16(2) and 17(3) of the MFMA must be in the format in which it will eventually be approved by the Council.*

Therefore, all municipalities are required to ensure that their 2018/19 MTREF Budgets are tabled for comments and approval in Council as per the requirements set out in Schedule A1 of the MBRR (Version 6.2) and submitted to the National and Provincial Treasuries.

Failure to adhere to this constitutes financial misconduct in terms of Section 171(1)(a) of the MFMA and municipalities risk Provincial Treasury not providing any views / comments on the budget for municipalities to consider as required by Section 23(1)(b) of the MFMA. All the submitted budgets which have been poorly populated, or are not in the required Version 6.2 format will be returned to the Mayors and Municipal Managers of affected municipalities to be corrected and re-tabled in Council as per the requirement of MFMA Circular No. 89.

C. Funding Position of the 2018/19 MTREF Municipal Budgets

Section 18 of MFMA states that *an annual budget may only be funded from realistically anticipated revenue to be collected, cash backed accumulated funds from previous years surpluses not committed for other purposes and borrowed funds, but only for the capital budget.*

Tables A7: *Budgeted cash flow* and A8: *Cash backed reserves/accumulated surplus reconciliation* of the A1 Schedule are critical in assessing and determining the funding position of the municipal budget in accordance with Section 18 of the MFMA. Table A7 shows how the municipality's operations are expected to impact on its cash position, while Table A8 shows whether the municipality has sufficient cash and investments available to finance commitments, short term provisions and reserves.

Provincial Treasury has observed with great concern that in the past financial years, some municipalities have been submitting budgets that are unfunded in Tables A7 and A8, while some municipalities submitted budgets with incomplete or incorrectly populated Tables A7 and A8 and as a result rendering it impossible for Provincial Treasury to determine if the budget is funded or not.

Tabling of funded budgets has been identified as a game changer in local government to ensure financial sustainability. It is therefore imperative that Tables A7 and A8 are accurately and completely populated in order for Provincial Treasury to conduct a thorough evaluation of the budget and provide valuable comments on the funding of the budget.

To further assist in providing an effective assessment on the funding position of municipalities, Provincial Treasury hereby requires that municipalities should also submit other documents such as Bank Reconciliations, Bank Statements, Investment Registers, Grants Registers and Trial Balances to support their budget assumptions in line with MFMA Circular No. 67.

An unfunded budget is a serious transgression that will impact the financial viability of a municipality as well as its ability to deliver services to the community. Provincial Treasury therefore does NOT support an unfunded budget. It should be emphasised that Provincial Treasury will refer back to the Mayors and Municipal Managers all unfunded budgets as well as budgets with incomplete Tables A7 and A8 to be corrected. Where a municipality has challenges in correcting the budget to ensure that they are funded in one financial year, the municipality must together with their 2018/19 MTREF budget, table a plan in Council on how and by when the budget will improve from an unfunded to a

funded position. Failure to address the weaknesses identified by Provincial Treasury will result in the MEC for Finance advising National Treasury to consider stopping the Equitable Share Transfer to the affected municipalities in terms of Section 38 of the MFMA.

D. Technical assistance on the 2018/19 MTREF Draft Budgets

Provincial Treasury officials will be available during March 2018 to provide technical assistance to municipalities upon request. Guidance will be provided on the completion of the A1 Schedule, tailored to the specific information needs of the municipality, the implementation of the requirements of the MFMA Circulars and Provincial Treasury Circulars as well as the requirements of the relevant legislation. In this regard, please contact your relevant Provincial Treasury Analyst.

E. Engagement with municipalities on the 2018/19 MTREF Tabled Budgets

Provincial Treasury requested municipalities in Provincial Treasury Circular PT MF 4 of 2017/18 to make provision for engagements with Provincial Treasury on the 2018/19 MTREF budgets to be included in their *Time Schedules Outlining Key Deadlines*. These engagements will be held during April and May 2018 wherein Provincial Treasury intends to constructively engage with municipalities on the critical matters raised on the 2018/19 MTREF Tabled Budget in an attempt to produce more reliable, funded and credible budgets before they are approved by Council. These engagements are vital for the discussion and understanding of significant issues raised by Provincial Treasury. They provide the opportunity for the municipality's responses to be incorporated in the final assessment correspondence issued by Provincial Treasury which must be tabled in Council together with other budget documents. The tabling in Council of the Provincial Treasury's final assessments of the 2018/19 MTREF Tabled Budget will not only bring the highlighted issues to the attention of the full Council but will also empower and direct the Council as to which areas to focus on as part of their Oversight role.

Provincial Treasury hereby requests a copy of the Council resolution or extract reflecting the Tabling of Provincial Treasury's final assessment of the 2018/19 MTREF Tabled Budget to be included among the Budget documents to be submitted to both National and Provincial Treasuries.

F. Submission of the 2018/19 MTREF Municipal Budgets

Section 22(b)(i) of the MFMA requires that *immediately* after an annual budget is tabled in a Municipal Council, it must be submitted to the National and the relevant Provincial Treasury in both printed and electronic formats. If the annual budget is tabled to Council on 29 March 2018, the final date of the submission of **the electronic budget documents and corresponding electronic returns is Tuesday, 03 April 2018**. The deadline for submission of the printed copies including the Council resolution is **Friday, 06 April 2018**, however; **early submission of these documents is encouraged.**

The budget related information listed in the MBRR Schedule A (**Annexure C**) must be submitted to both Provincial and National Treasuries. After receiving the Tabled Budget, Provincial Treasury will complete a Compliance Checklist. This checklist will indicate the level of compliance of the budget with the MBRR by the municipality. A copy of the checklist will be sent to the National Treasury and the municipality.

Section 24(3) of the MFMA, read together with Regulation 20(1) of the MBRR, requires that the **approved annual budget and supporting Council resolution and other documents such as the Quality Certificate** etc. must be submitted **within ten working days** after Council has approved the Annual Budget. Therefore, if the Council approves the Annual Budget on **31 May 2018**, the final date for such submission is **Thursday, 14 June 2018**, otherwise an earlier date applies.

Provincial Treasury should be invited to attend and observe the sessions for the tabling and approval of the 2018/19 MTREF Budgets in the Municipal Councils.

Certification that the budget is correctly captured and locked in the Financial System

As per MFMA Circular No. 59, municipalities are required to submit the Budget Locking Certificate as proof that the approved MTREF Budget as reflected in Tables A1 to A10 have been captured and 'locked' on the municipality's financial system to guard against the Approved Budget being altered at any stage without due process being followed. This step seeks to emphasize that the approved set of figures are always presented for various purposes throughout the financial year. Therefore, the certificate indicating that the budget is correctly captured and 'locked' in the financial system must be submitted to National and Provincial Treasuries together with the approved 2018/19 MTREF Budget documents on the submission date indicated above.

G. Publication of the 2018/19 MTREF Municipal Budgets

In terms of Section 75(1) of the MFMA, municipalities are required to place amongst other documents, their annual budgets on their websites. Section 75(2) of the MFMA further requires that documents must be placed on the website not later than five working days after its tabling in Council, or on the date on which it must be made public, whichever comes first. Provincial Treasury has observed with a great deal of concern that certain municipalities are not timeously placing their budgets and all related documents on their websites. All municipalities are required to place both their 2018/19 Tabled and Approved MTREF Budgets and all related documents on their websites timeously according to the timeframes indicated above. This will not only promote transparency, accountability and good governance but will also facilitate the process of public comments.

H. 2018/19 MTREF Municipal Budget Verification Process

National Treasury publishes each year, a consolidated set of budget information, for all municipalities in the country using the budget information submitted to the LG Database. The Budget Verification process is an annual process conducted by National Treasury in conjunction with Provincial Treasuries to ensure that **the MTREF Budgets approved by the Council on the A1 Schedule perfectly aligns with all the relevant Annual Returns uploaded to the LG Database and the ORG B data strings uploaded to the LG Portal by municipalities.** The verification process covers three previous years' Audited Outcome figures which should also be aligned with the latest audited Annual Financial Statements (AFS) of the municipality and the Adjustments Budget figures which should also agree to the Council approved Adjustments Budget.

The Budget Verification process affords municipalities ample opportunity to correct any errors reflected in their returns which were already uploaded to the LG Database, however, within the timeframes stipulated by National Treasury.

Many municipalities in the province have in the past, struggled to complete the Budget Verification process timeously. Therefore, in order to ensure a timeous completion of the Budget Verification process, Provincial Treasury is planning to follow a phase-in-approach according to the following dates:

- A verification of all Audited Returns as well as the Adjustments Budget Returns **by no later than 28 February 2018.**
- A verification of the 2018/19 MTREF Budget Returns **before 31 July 2018.**

I. Budget Steering Committee (BSC)

Regulation 4(1) of the MBRR states that *the Mayor of a municipality must establish a budget steering committee to provide technical assistance to the Mayor in discharging the responsibilities set out in Section 53 of the Act (the MFMA).*

Furthermore, the MBRR requires that the Budget Steering Committee must consist of at least the following persons:

- (a) the Councillor responsible for financial matters;
- (b) the Municipal Manager;
- (c) the Chief Financial Officer;
- (d) the Senior Managers responsible for at least the three largest votes in the municipality;
- (e) the Manager responsible for budgeting;
- (f) the Manager responsible for planning; and
- (g) any technical experts on infrastructure.

Despite the issuing of Provincial Treasury Circular PT MF 9 of 2016/17 *Budget Steering Committee*, many municipalities have not yet established a BSC as per the above legislation. An effectively functioning BSC is an integral component of the municipal budgeting and planning process to ensure that a reliable, relevant and credible budget is approved by the Municipal Council. Municipalities that do not already have approved and functional BSCs for the 2018/19 MTREF Budget process are urged to immediately commence with the process to establish their BSC.

J. Service Delivery and Budget Implementation Plans (SDBIPs)

Legislative Requirements

Section 53(1)(c)(ii) of the MFMA requires the Mayor to ensure that the municipality's SDBIP is approved by the Mayor within 28 days after the approval of the annual budget.

MFMA Circular No.13 states that the Municipal Manager is responsible for the preparation of the SDBIP, which must be submitted to the Mayor for approval once the budget has been approved by the Council.

Furthermore, Regulation 15(3)(b) of the MBRR states that when submitting the annual budget to the Provincial and National Treasuries in terms of Section 22(b)(i) of the MFMA, the Municipal Manager must also submit a draft SDBIP in both printed and electronic forms. Failure to submit such will result in non-compliance with the MBRR.

When to prepare and submit the SDBIP

The Municipal Manager should start the process to prepare the top layer of the SDBIP in conjunction with the preparation of the Draft Budget and preferably submit the draft SDBIP to the Mayor for initial approval with the Draft Budget. It should include the following:

- 1) Projected revenue to be collected by source;
- 2) Projected operating and capital expenditure by vote; and
- 3) Service delivery targets and performance indicators for each quarter.

Once the final budget has been approved by the Council, the Municipal Manager should revise the initially approved draft SDBIP and submit such to the Mayor for final approval within 28 days of the approval of the

budget.

Regulation 20(2)(b) of the MBRR requires that the approved SDBIP be submitted within 10 working days after the Mayor has approved the plan to both the Provincial and National Treasury. A breakdown of the SDBIP preparation and approval process is provided in Figure 1.

Figure 1: SDBIP preparation and approval process



Components of an approved SDBIP

Please ensure that the SDBIP contains the following five required components and that the information reflected reconciles to the information in the budget:

- i. Monthly projections of revenue to be collected for each source;
- ii. Monthly projections of expenditure (operating and capital) and revenue for each vote;
- iii. Quarterly projections of service delivery targets and performance indicators for each vote;
- iv. Ward information for expenditure and service delivery; and
- v. Detailed capital work plan broken down by ward over three years.

K. National and Provincial Transfers to Municipalities

Municipalities are reminded of their responsibility to ensure that the allocations in their budgets for the Provincial and National transfers correspond to the allocations as reflected in the Provincial Gazette of Transfers and the 2018 Division of Revenue Bill (DoRB), respectively. Due to the early issuing of this Provincial Budget Circular, the Provincial Transfers were not available and will thus be circulated to municipalities as soon as the Gazette becomes available.

Provincial allocations as per signed Memorandum of Agreements (MoAs) should not be included in the budget if they have not been included in the Provincial Gazette. However, they can be treated in terms of Regulation 23(3) of the MBRR which states 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 working days of the approval of the relevant national or provincial adjustments budget, table an adjustments budget referred to in Section 28(2)(b) of the MFMA in the*

municipal Council to appropriate these additional revenues. Any enquiries pertaining to the provincial transfers should be directed to the relevant transferring department.

L. Further matters for consideration in the 2018/19 MTREF Municipal Budget Process

The following were areas of weaknesses and common mistakes identified by both Provincial and National Treasuries in prior years and should be considered and addressed (where applicable) when preparing the 2018/19 MTREF budgets:

- Compliance checks performed on prior year budgets reflected that many municipalities did not provide all budget information and did not submit all the required budget supporting documents such as Budget related policies, Draft Service Delivery and Budget Implementation Plan (SDBIP), Draft Integrated Development Plan (IDP) and Budget Assumptions, etc.
- The Budget Narrative reports for a number of municipalities were not comprehensive and in some instances contradicted the information provided in the A1 Schedule.
- Table A10: *Basic service delivery measurement* was incomplete or poorly completed by some municipalities. Table A10 is critical for reflecting amongst others, the information on the number of households within a municipal area, the cost of providing free basic services and the unit of measurement thereof such as kilolitres for water, kilowatt-hour for electricity and how frequent refuse is being removed, etc.
- Some of the critical supporting tables amongst others which were not completed or poorly completed were:
 - Table SA7: *Measurable performance objectives*;
 - Table SA24: *Summary of personnel numbers*;
 - Table SA34b: *Capital expenditure on the renewal of existing assets by asset class*;
 - Table SA35e: *Capital expenditure on the upgrading of existing assets by asset class*;
 - Table SA37: *Project delayed from previous financial year(s)*; and
 - Table SA38: *Detailed operational projects*.
- The budget tables in the A1 Schedules for some municipalities were either not fully and/or accurately populated. Discrepancies were noted in the following areas:
 - Audited Outcome figures did not reconcile to the Audited AFS figures;
 - The full year forecasts figures for the “current year” were merely replicated as the Adjusted Budget figures and were not in line with the performance trends;
 - The Adjusted Budget figures were not reconciling to the Council approved B Schedule figures; and
 - Discrepancies were also noted between the electronic budgets submitted and the printed budgets submitted of the A1 Schedules.
- In Table A7, the most common error was the capturing of incorrect figures in the Adjusted Budget and Audited Outcomes columns. Consequently, incorrect opening balances were carried over to the MTREF period.
- The budgeted revenue cash flow projections in some cases were also based on collection rate assumptions which were not realistic.
- Table A8 was commonly characterised by incomplete information, whereby, estimates on items such as *Unspent conditional grants, Statutory requirements, Other working capital requirements, Other*

provisions, Reserves to be cash backed by cash/investments, etc. were not fully populated thereby resulting in an unrealistic picture for the *Total Application of cash and investments* or an incorrect amount reflected for *Surpluses* or *Shortfalls* as the end result.

- Most municipalities did not disclose the rateable properties and market values of rateable properties in Tables SA11 and SA12b which limited the analysis of the reasonableness of the budget estimates on *Property rates* revenue. Due to the non-submission of Property rates policies by some municipalities, Provincial Treasury could not determine whether these municipalities have incorporated into their budgets, the amendments resulting from the Municipal Property Rates Amendment Act No. 29 of 2014.
- Some municipalities that provide water and electricity services did not account for the *Cost of free basic services* in Table SA1 due to incorrectly populating Table SA9 resulting in overstated revenue budgets for Service Charges.
- Tables SA22, SA23 and SA24 relating to *Councillors and staff benefits, Salaries and allowances* as well as *personnel numbers* for some municipalities were poorly populated or not populated thereby limiting the extent to which the reasonableness of the budgeted salary increases could be assessed.
- Despite the guidance of MFMA Circulars No. 58 and 66 and subsequent MFMA Circulars to reduce non-priority spending, it was noted that some municipalities have budgeted for items considered to be non-priority.
- The item *Other expenditure* in particular was of concern as the increases in some cases were excessive. Furthermore, undefined projects and non-priority items were noted in *General expenses* resulting in significantly high budget amounts for *Other expenditure*. Some municipalities also did not break down *Other expenditure* sufficiently in Table SA1.
- For most municipalities, *General expenses*, as detailed in Supporting Table SA1 contributed more than 10 percent towards *Other expenditure*. In terms of the MFMA Budget Format Guide, *General expenses* should not exceed 10 percent of the *Other expenditure* budget. Municipalities were advised to review their allocation of expenditure to *General expenses* and reallocate the expenditure to appropriate expenditure items accordingly.
- Some municipalities continued to submit incomplete Budget Tables relating to their capital budget, including Table SA36: *Consolidated detailed capital budget* and Table SA37: *Project delayed from previous financial years*. Most municipalities still have a challenge with budgeting for at-least 40 percent of the Capital expenditure budget for *Renewal of existing assets* as per National Treasury's guidelines. Furthermore, the budgets for *Repairs and maintenance* were in some cases unrealistic or questionable and the *Asset register summary – Property Plant and Equipment (PPE)* values were also not linked to Asset Registers thereby distorting the information which forms the basis for the correct calculation of *Repairs and maintenance*.
- Notwithstanding the importance of supplementing the capital programme from *Internally generated funds*, the narrative reports of some municipalities could not adequately demonstrate that they have cash backed accumulated funds from previous years which remain uncommitted for other purposes. With the poorly populated Tables A7 and A8, the ability to finance capital programmes from own funding in some cases could not be established.
- Overstatement of Gross debtors on Table SA3.
- Understating provision for *Debt Impairment* on Table SA3 by not adding the contribution for the current year or adding a lesser contribution to the provision thus increasing current debtors.
- Overstatement of Consumer Debtors (reduces working capital requirement on Table A8).
- Understatement of *Depreciation & Asset Impairment* in Table A4.

- Understatement of *Debt Impairment* in Table A4.
- Understatement of *Trade and Other Payables* (reduces working capital requirement on SA8).
- Understatement of *Trade Creditors* and *Other Creditors* in Table SA3.

M. Budget Submission Process

The Budget related information listed in the MBRR Schedule A (**Annexure C**) must be forwarded to the Provincial and National Treasuries by the deadline dates indicated under Section F of this Circular. The submission addresses are as follows:

Provincial Treasury (PT)

Printed copies of required documents can be couriered or hand delivered to:

The Provincial MFMA Coordinator

Provincial Treasury, 7th Floor Treasury House

145 Chief Albert Luthuli Street

Pietermaritzburg, 3201

FOR ATTENTION: FARHAD CASSIMJEE

Electronic copies of the required documents must be e-mailed to mfma@kzntreasury.gov.za.

National Treasury (NT)

Printed copies of the required documents can be sent to:

Posted documents:

Ms Linda Kruger

National Treasury

Private Bag X115

Pretoria, 0001

Couriered documents:

Ms Linda Kruger

National Treasury

40 Church Square

Pretoria, 0002

Electronic copies of the required documents must be e-mailed to lgdocuments@treasury.gov.za. If the budget documents are too large to be sent via email, arrangements for them to be downloaded from the municipality's website must be made with Elsabe Rossouw (e-mail: Elsabe.Rossouw@treasury.gov.za).

Yours sincerely



Ms Belinda Francis Scott
MEC FOR FINANCE - KZN

CC ADMINISTRATORS (if applicable)
JAN HATTINGH, NATIONAL TREASURY
TV PILLAY, NATIONAL TREASURY
N MAKHAYE, BUSINESS EXECUTIVE – KZN AUDITOR GENERAL

Annexure A

| 2018/19 Budget Preparation Process Checklist | | | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|------------------------------------------------------------|----------------------------------------------------------|----------|
| Kindly note that the processes highlighted in this document are not exhaustive, they are only provided as a guidance and can therefore be enhanced where appropriate | | | | | |
| No. | Process | Commenced | Status (where applicable) | | |
| | | | Progress (Please provide a copy of the progress report) | Finalised (Please provide a copy of the final report) | Not done |
| 1 | The municipality must ensure the following regarding the Preparation of 2018/19 MTREF Budget | | | | |
| 1.1 | That there is sufficient consultation process of the IDP and Budget including with sector departments and other stakeholders such as Rates Payers' Associations, | | | | |
| 1.2 | The Valuation Roll is updated and captured on the Financial System, | | | | |
| 1.3 | Updated Valuation roll should be used to budget for Property rates revenue and Service charges | | | | |
| 1.4 | Timeous Application of Electricity Tariff with Eskom as from November 2017 | | | | |
| 1.5 | The review of the following budget related policies: > Tariffs > Rates > Credit control and debt collection > Cash management and investment > Borrowing > Funding and reserves > Long-term financial plan > Supply chain management > Management and disposal of assets > Infrastructure investment and capital projects > Indigents > Free basic services > Budget implementation and monitoring > Personnel > Managing electricity and water > Any other budget related or financial management > Municipal entities > Draft Service Delivery and Budget Implementation Plans (SDBIP) | | | | |
| 1.6 | That the MFMA Budget Circulars from National and Provincial Treasuries are considered in the preparation of the Draft 2018/19 MTREF Budget | | | | |
| 1.7 | The receipt of 2018 DoRA and Provincial Gazette to ensure that all allocations are correctly considered in the draft 2018/19 MTREF budget. | | | | |
| 1.8 | That the Audited Outcome figures for the 2014/15, 2015/16 and 2016/17 financial years in Schedule A1 agree to the Audited AFS.(and where applicable, restated figures) | | | | |
| 1.9 | That the budget amounts in Tables A7 and A8 are funded as per guideline of Section 18 of MFMA Circular No. 55. | | | | |
| 1.10 | That the Surplus/Deficit amounts in Table A4 reconcile to the amount captured in Tables A2 and A3 | | | | |
| 1.11 | That the Trading Services are self-supporting (are not operating at a deficit). | | | | |
| 1.12 | All budget tables and schedules must be fully completed. NB: All Municipal HODs to assist CFO in providing information relating to supporting tables to ensure full completion of tables including Non-Financial info. e.g. in Tables A5, A9, A10, SA4, SA5, SA6, SA7, SA9). | | | | |
| 1.13 | That there is sufficient provision for debt impairment | | | | |
| 1.14 | That the budget for <i>Renewal of existing assets</i> over the MTREF is separately reflected as per the budget format and is sufficient (at least 40 percent of the capital budget - Refer to MFMA Circular 55) | | | | |
| 1.15 | That the municipality budget properly and sufficiently for Depreciation and Debt Impairment, and not budgeting for unrealistic low amounts under these items for the sake of balancing the budget or avoiding deficits on the operating budget expenditure due to these items | | | | |
| 1.16 | That the Draft 2018/19 SDBIP is prepared in accordance with MFMA Circular No. 13 of National Treasury. | | | | |
| 1.17 | That the Draft 2018/19 SDBIP is aligned to the IDP and Draft 2018/19 Budget. | | | | |
| 1.18 | That the electronic budget in A1 Schedule and related annual returns are submitted to PT and NT on 3 April 2018 | | | | |
| 1.19 | That the Draft 2018/19 SDBIP is timeously submitted to National and Provincial Treasuries together with all budget related documents within 10 working days after tabling for comments | | | | |
| 1.20 | That the planned budgeting for performance bonuses for Senior Management is in line with the maximum prescribed in the Local Government Performance Regulations. | | | | |
| 1.21 | That the following are also submitted to NT in terms of paragraph 4.4 of MFMA Circular 51, when budgeting for renovation and fencing of office buildings: > A motivation as to why the proposed new office building is necessary; > A detailed costing of the proposed new office building; > An outline of how the project is to be financed; and > An overview of the service delivery infrastructure backlogs in the municipality > The above information must be sent to Jan Hattingh (email:jan.hattingh@treasury.gov.za) | | | | |
| 1.22 | The Draft Budget and all related documents must be submitted to National and Provincial Treasuries within the prescribed time frame as per MFMA Circular 85. | | | | |
| 1.23 | For the municipalities with the municipal entities, the municipality must ensure that the consolidated Draft Budget is prepared and submitted to National and Provincial Treasuries. | | | | |
| 1.24 | That there is no budgeting for non-priority items in line with MFMA Circular No. 58, 70 etc. | | | | |

| No. | Process | Status (where applicable) | | | |
|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|------------------------------------------------------------|----------------------------------------------------------|----------|
| | | Commenced | Progress (Please provide a copy of the progress report) | Finalised (Please provide a copy of the final report) | Not done |
| 2 | CASH FUNDING POSITIONS OF THE BUDGET | | | | |
| 2.1 | Tables A7 :Budget Cash Flow | | | | |
| | > Has Table A7 been fully populated? | | | | |
| | > Have the correct figures been captured in Table A7's Adjusted Budget and Audited Outcome Columns? This is critical to indicate if correct opening balance are being carried over MTREF | | | | |
| | > Have correct opening and closing balances of Cash and Cash equivalents been carried over the MTREF period. | | | | |
| | > Is Cash flow balance on Table A7 positive? | | | | |
| 2.2 | Tables A8: Cash backed reserves/accumulated surplus reconciliation | | | | |
| | > Has Table A8 been fully populated? The table must be fully completed including items such as: Unspent conditional grants, Statutory requirements, Other working capital requirements, Other provisions, etc. | | | | |
| | > Is Cash balance on Table A8 showing a surplus? | | | | |
| 3 | The municipality must ensure the following regarding the tabling and approval of 2018/19 MTREF Budget: | | | | |
| 3.1 | That the budget in prescribed format (A1 Schedule ver 6.2), reviewed budget related policies and all other related documents are tabled in line with the budget timetable by 31 May 2018. | | | | |
| 3.2 | That the PT's comments on 2018/19 draft budget as well as the municipality's responses to PT comments are also tabled together with 2017/18 MTREF Budget for final approval. | | | | |
| 3.3 | Ensure designated municipal official to work with relevant Municipal Budget Analyst in PT regarding the 2018/19 Budget verification process till the process is concluded. | | | | |
| 3.4 | That the approved budget and all related documents including the SDBIP are placed on municipal websites within 5 days after approval in Council as per MFMA Section 75(2). | | | | |
| 3.5 | The Approved Budget and all related documents including the SDBIP and Quality Certificate are submitted to National and Provincial Treasuries within 10 working days after approval as per Section 20(1) MBRR. | | | | |
| 3.6 | Approved Budget is captured in the financial system and is locked. | | | | |

Annexure B

| Municipal Budget Working Paper File | | |
|-------------------------------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Minimum Information to be Included in the Municipal Budget Working Paper File | | |
| No. | Item in Budget | Supported in Municipal Budget Working Paper File |
| 1 | Revenue by Source | |
| 1.1 | Property Rates – including penalties and collection charges | <ul style="list-style-type: none"> > Valuation roll > Copy of rates policy > Proposed rate randage for the various categories of ratepayers > Proposed penalty and collection charge > Budget calculation workings > Any other relevant documentation |
| 1.2 | Service Charges – Electricity Revenue | <ul style="list-style-type: none"> > Monthly schedule of Kilowatts sold per category from July to current > Details of any new areas to be billed in the new financial year > Copy of tariff policy > Proposed tariffs > Budget calculation workings > Any other relevant documentation |
| 1.3 | Service Charges – Water Revenue | <ul style="list-style-type: none"> > Monthly schedule of Kilolitres sold per category from July to current > Details of any new areas to be billed in the new financial year > Copy of tariff policy > Proposed tariffs > Budget calculation workings > Any other relevant documentation |
| 1.4 | Service Charges - Waste Removal / Refuse Revenue | <ul style="list-style-type: none"> > Monthly schedule of households/businesses per category from July to current > Details of any new areas to be billed in the new financial year > Copy of tariff policy > Proposed tariffs > Any other relevant documentation |
| 1.5 | Service Charges - Other | <ul style="list-style-type: none"> > Details of service charges other > Copy of tariff policy > Proposed tariffs > Budget calculation workings > Any other relevant documentation |
| 1.6 | Rental of facilities and equipment | <ul style="list-style-type: none"> > Schedule of rental facilities and equipment > Copies of lease agreements for rental properties > Proposed tariffs > Budget calculation workings > Any other relevant documentation |
| 1.7 | Interest earned external investments | <ul style="list-style-type: none"> > Details of proposed investments > Copy of cash management and investments policy > Estimated interest rates > Budget calculation workings > Any other relevant documentation |
| 1.8 | Interest earned outstanding debtors | <ul style="list-style-type: none"> > Copy of debt collection and credit control policy > Proposed interest rate > Budget calculation workings > Any other relevant documentation |
| 1.9 | Fines | <ul style="list-style-type: none"> > Details of the various fines (eg traffic, library, etc) > Proposed tariffs > Budget calculation workings > Any other relevant documentation |
| 1.10 | Licences and permits | <ul style="list-style-type: none"> > Schedule of license and permit holders > Proposed tariffs > Budget calculation workings > Any other relevant documentation |
| 1.11 | Agency services | <ul style="list-style-type: none"> > Schedule of agency agreements > Copies of agency agreements > Budget calculation workings > Any other relevant documentation |
| 1.12 | Transfers recognised – Operational | <ul style="list-style-type: none"> > Schedule of national and provincial grants to be transferred to the municipality > Copies of the relevant gazettes > Letters of confirmation from transferring authority where the grant to be received is not gazetted > Budget calculation workings > Any other relevant documentation |
| 1.13 | Other revenue | <ul style="list-style-type: none"> > Schedule of all other revenue > Budget calculation workings > Any other relevant documentation |
| 1.14 | Gains on disposal of PPE | <ul style="list-style-type: none"> > Schedule of assets to be disposed off > Copies of any policies dealing with the management and disposal of assets > Copies of council resolution if applicable authorising the disposal > Estimated book value of the assets to be disposed of > Estimated proceeds to be received from the disposals > Budget calculation workings > Any other relevant documentation |

Municipal Budget Working Paper File

Minimum information to be included in the Municipal Budget Working Paper File

| No. | Item in Budget | Supported in Municipal Budget Working Paper File |
|----------|-------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2 | Operating Expenditure by Type | |
| 2.1 | Employee related costs | <ul style="list-style-type: none"> > Copy of approved organogram > Copy of signed agreement between the employer representative and the unions on the applicable wage agreement in force > Copy of relevant policies (e.g. travel, s&t, cell phone, overtime, etc) > Details of employer contributions to medical aids, pension funds, etc > Budget calculation workings > Any other relevant documentation |
| | Remuneration of Councillors | <ul style="list-style-type: none"> > Listing of all Councillors > Copy of previous years gazette for reference purposes > Budget calculation workings > Any other relevant documentation |
| 2.3 | Debt impairment | <ul style="list-style-type: none"> > Copy of debt collection and credit control policy > Budget calculation workings > Any other relevant documentation |
| 2.4 | Depreciation and asset impairment | <ul style="list-style-type: none"> > Copy of assets register > Copies of any policies dealing with the management of assets > Budget calculation workings > Any other relevant documentation |
| 2.5 | Finance charges | <ul style="list-style-type: none"> > Copy of loans register > Copies of loan agreements > Copies of amortisation schedules for each loan > Details of any new anticipated loans > Budget calculation workings > Any other relevant documentation |
| 2.6 | Bulk Purchases | <ul style="list-style-type: none"> > Monthly schedule of Kilowatts purchased for Electricity from July to current > Monthly schedule of Kilolitres purchased for Water from July to current > Details of any new areas to be billed in the new financial year > Copies of any policies related to managing electricity and water > Estimated price increases from bulk suppliers > Budget calculation workings > Any other relevant documentation |
| 2.7 | Other materials | <ul style="list-style-type: none"> > Listing of other materials > Budget calculation workings > Any other relevant documentation |
| 2.8 | Contracted services | <ul style="list-style-type: none"> > Copy of contracts register > Copies of contracts > Details of any new anticipated contracts > Budget calculation workings > Any other relevant documentation |
| 2.9 | Transfers and grants | <ul style="list-style-type: none"> > Details of transfers and grants > Copies of any policies related to the provision of free basic services > Budget calculation workings > Any other relevant documentation |
| 2.10 | Other expenditure – including repairs and maintenance | <ul style="list-style-type: none"> > Details of other expenditure – including repairs and maintenance > Budget calculation workings > Any other relevant documentation |
| 2.11 | Loss on disposal of PPE | <ul style="list-style-type: none"> > Schedule of assets to be disposed off > Copies of any policies dealing with the management and disposal of assets > Copies of Council resolution if applicable authorising the disposal > Estimated book value of the assets to be disposed of > Estimated proceeds to be received from the disposals > Budget calculation workings > Any other relevant documentation |

| Municipal Budget Working Paper File | | |
|-------------------------------------------------------------------------------|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Minimum information to be included in the Municipal Budget Working Paper File | | |
| No. | Item in Budget | Supported in Municipal Budget Working Paper File |
| 3. Capital Sources of Revenue | | |
| | Transfers recognised - capital | <ul style="list-style-type: none"> > Schedule of national and provincial grants to be transferred to the municipality > Copies of the relevant gazettes > Letters of confirmation from transferring authority where the grant to be received is not gazetted > Budget calculation workings > Any other relevant documentation |
| 3.2 | Public contributions & donations | <ul style="list-style-type: none"> > Details of public contributions and donations > Budget calculation workings > Any other relevant documentation |
| 3.3 | Borrowing | <ul style="list-style-type: none"> > Copy of borrowing policy > Copies of loan agreements > Details of expected borrowings and related projects > Copy of Council resolution authorising the proposed borrowing > Any documentation to the support the budget > Budget calculation workings > Any other relevant documentation |
| 3.4 | Internally generated funds | <ul style="list-style-type: none"> > Copy of the funding and reserves policy > Details of the projects to be funded > Evidence of available funds > Budget calculation workings > Any other relevant documentation |
| 4. Capital Expenditure | | |
| | | <ul style="list-style-type: none"> > Copy of draft/approved IDP > Copies of any policies dealing with infrastructure investment and capital projects > Listing of projects referenced to the IDP together with sources of finance > Copy of procurement/projects plan > Any documentation in support of the budgeted figures > Budget calculation workings > Any other relevant documentation |
| 5. Loan Repayments | | |
| | | <ul style="list-style-type: none"> > Copy of loans register > Copies of loan agreements > Copies of amortisation schedules for each loan > Details of any new anticipated loans > Budget calculation workings > Any other relevant documentation |
| 6. Compliance/Performance Information | | |
| | | <ul style="list-style-type: none"> > Copy of the approved key deadlines for the preparation, tabling and approval of the Annual Budget (S.21(b) of the MFMA) > Copy of the Council resolution approving such > Copy of the resolution for the tabling of the annual budget at least 90 days before the start of the budget year (S.16(2) of the MFMA) > Copy of the tabled budget in Schedule A > Copy of the advertisement making public the annual budget and inviting the local community to make representations in connection with the budget (S.22(a)(i) and (ii) of the MFMA) > Documentary proof that the Municipal Manager has submitted the annual budget in both printed and electronic formats to the National Treasury and the relevant Provincial Treasury (S.22(b)(i) and (ii) of the MFMA) > Documentary proof that the municipal Council has considered the views of the local community, the National and Provincial Treasury and any provincial or national organ of state or municipality which has made submissions on the budget (S.23(1)(a) and (b) of the MFMA) > Copy of the resolution for the consideration of the budget at least 30 days before the start of the budget year (S.24(1) of the MFMA) > Copy of the approved Schedule A > Documentary proof that within 10 working days after the municipal Council has approved the annual budget of the municipality that the Municipal Manager has in accordance with section 21A of the Municipal Systems Act made public the approved annual budget and supporting documentation and the resolutions referred to in S.24(2)(c) of the Act (Regulation: 18(1) of the MBRR) > Documentary proof that the Municipal Manager has submitted the approved annual budget to the National and Provincial Treasury (S.24(3) of the MFMA) within 10 working days after the municipal council has approved the annual budget (Regulation: 20(2) of the MBRR) > Copies of all approved budget related policies > Copy of approved tariff of charges > Any other relevant documentation |
| 7. Service Delivery and Budget Implementation Plan (SDBIP) | | |
| | | <ul style="list-style-type: none"> > Copies of performance agreements of senior management > Copies of any relevant gazettes, circulars, etc > Copy of the draft SDBIP > Documentary proof that the municipality has submitted the draft SDBIP to the National and Provincial Treasury in both printed and electronic format (Regulation: 15(3)(b) of the MBRR) > Copy of the approved SDBIP > Alignment between budget and SDBIP > Documentary proof that the municipality's SDBIP is approved by the mayor within 28 days after the approval of the budget (S.53(c)(ii)) > Documentary proof that the municipal manager has in accordance with section 21A of the Municipal Systems Act made public the approved SDBIP within 10 working days after the mayor has approved the plan in terms of S.53(1)(c)(ii) of the Act (Regulation: 19 of the MBRR) > Any other relevant documentation |

Annexure C

MBRR Schedule A – Annual budget and supporting documentation of a municipality

As per the Municipal Budget and Reporting Regulations, the following information should be included as part of Schedule A:

PART 1 – ANNUAL BUDGET

- Mayor's Report
- Resolutions
- Executive Summary
- Annual Budget Tables

PART 2 – SUPPORTING DOCUMENTATION

- Overview of annual budget process
- Overview of alignment of annual budget with Integrated Development Plan
- Measurable performance objectives and indicators
- Overview of budget related policies
- Overview of budget assumptions
- Overview of budget funding
- Expenditure on allocations and grants programmes
- Allocation and grants made by the municipality
- Councilor and board member allowances and employee benefits
- Monthly targets for revenue, expenditure and cash flow
- Annual budgets and service delivery and budget implementation plans internal – departments
- Annual budgets and service delivery agreements – municipal entities and other external mechanisms
- Contracts having future budgetary implications
- Capital expenditure details
- Legislation compliance status
- Other supporting documents
- Annual budgets of municipal entities attached to the municipalities annual budget
- Municipal manager's quality certification

Details on the contents of each of the above Sections are provided in the Schedules to the Municipal Budget and Reporting Regulations, as published in Part 1 and 2 of the Government Gazette No. 32141 dated 17 April 2009.