



treasury

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Our Ref: 11/6/13/6
Enquiries: Mr F. Cassimjee
Date: 07 December 2015

**TO: MUNICIPAL MANAGERS
CHIEF FINANCIAL OFFICERS
KWAZULU NATAL MUNICIPALITIES**

PROVINCIAL TREASURY CIRCULAR TC/RM 5 OF 2015/16

PREPARATION, SUBMISSION AND PUBLICATION OF SECTION 72 MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT REPORT AND ADJUSTMENTS BUDGET

The objectives of this circular are threefold:

- To draw the attention of Accounting Officers of municipalities and municipal entities to the legislative requirements regarding the preparation of the 2015/16 Mid-Year Budget and Performance Assessment as well as the 2015/16 Adjustments Budget. It is intended to also guide the delegated municipalities on the approach to be followed in conducting the processes indicated above.
- To inform municipalities of Provincial Treasury's intention to engage municipalities with respect of the 2015/16 Mid-Year Budget and Performance Assessment and its impact on the 2015/16 Adjustments Budget.
- To circulate to municipalities the adjusted allocations from National and Provincial governments through the Division of Revenue Amendment Bill (DoRB) and extract from the preliminary Provincial Adjustments Budget (refer to attached Annexure C and D, respectively).

The following are covered in this circular:

- A. Separation of tabling dates for the Mid-Year Budget and Performance Assessment Report and Adjustments Budget;
- B. Preparation of the 2015/16 Mid-Year Budget and Performance Assessment Report;
- C. Format of a Mid-Year Budget and Performance Assessment Report;
- D. Assessment of the Mid-Year Budget and Performance Assessments Report and Engagements with municipalities;
- E. 2015/16 Adjustments Budget Process;
- F. Adjusted Allocations;
- G. Submission of the Mid-Year Budget and Performance Assessment Report and Adjustments Budget; and
- H. Publication of the Mid-Year Budget and Performance Assessment Report and Adjustments Budget Annexures.

A. Separation of tabling dates for the Mid-Year Budget and Performance Assessment Report and Adjustments Budget

Section 54(1)(f) of the Municipal Finance Management Act (MFMA) requires the Mayor to submit the Section 72 report to Council by 31 January of each year, while Regulation 23(1) of the Municipal Budget and Reporting Regulations (MBRR) states that the Adjustments Budget may be tabled any time after the Mid-Year Budget and Performance Assessment Report but not later than 28 February of the current year. In order for the Provincial Treasury to carry out its oversight responsibilities, **municipalities are advised not to table their Adjustments Budgets together with their Mid-Year Budget and Performance Assessments Reports.** This will allow the Provincial Treasury to effectively assess the Mid-Year Budget and Performance Assessment Reports and provide a meaningful contribution thereon in the preparation of the municipalities' 2015/16 Adjustments Budget. In addition, for Provincial Treasury to effectively plan the assessment and engagements of the 58 delegated municipalities in respect of their Mid-Year Budget and Performance Assessment Reports, municipalities are required in terms of Section 74(1) of the MFMA to provide the tabling dates (provisional) for both the 2015/16 Mid-Year Budget and Performance Assessment Report and 2015/16 Adjustments Budget to Provincial Treasury by **18 December 2015.**

B. Preparation of the 2015/16 Mid-Year Budget and Performance Assessment Report

Section 72(1)(a) of the MFMA states that *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.* The Act requires the Accounting Officer to consider the following amongst others when compiling the Mid-Year Budget and Performance Assessment Report:

- Monthly Section 71 statements;
- Service delivery performance during first half of the financial year;
- Past year's annual report; and
- Performance of every municipal entity.

National Treasury uses the monthly Section 71 reports as submitted by municipalities for the first six months as the basis for the publishing of the 2nd Quarter Municipal Performance results.

Municipalities should therefore ensure that there is perfect alignment between the figures reflected in the Section 71 Reports for the first 6 months as well as the figures reflected in the Section 72 Mid-Year Report. Should a municipality note any discrepancies, the municipality is encouraged to ensure the Section 71 returns are corrected and re-submitted before the closure of the National Treasury quarterly verification process. If the municipality is reporting different figures to National Treasury via Section 71 Reports as compared to the figures reported to Council in the Section 72 Report, this will be construed as financial misconduct in terms of Section 171(1)(d)(i) of the MFMA, which states: *the Accounting Officer of a municipality commits an act of financial misconduct if that Accounting Officer deliberately or negligently provides incorrect or misleading information in any document which in terms of a requirement of this Act must be submitted to the Mayor or Council of the municipality, or to the Auditor-General, the National Treasury or other organ of state.* Provincial Treasury will thus consider this as a non-compliance and consequently, Provincial Treasury will not assess the municipality's 2015/16 Mid-Year Budget and Performance Assessment Report.

C. Format of a Mid-Year Budget and Performance Assessment Report

Regulation 33 of the MBRR requires that a Mid-Year Budget and Performance Assessment Report must be in the format specified in Schedule C and include all required tables, charts and explanatory information and any guideline issued by the Minister. Provincial Treasury is concerned that since the implementation of the MBRR in 2009, there are still some municipalities which are not using the prescribed formats in preparation of their

Mid-Year Budget and Performance Assessment Reports. This is despite the ongoing support provided by Provincial Treasury to ensure that municipalities comply with the MFMA and MBRR.

It has further been noted with concern that some municipalities do not populate or do not adequately populate Table SC1: *Material variance explanation*, which requires a municipality to indicate the reasons for material variances as well as remedial or corrective steps taken or to be taken to address the material variance. **It is therefore, compulsory for all municipalities to populate Table SC1: *Material variance explanation*.**

Also noted is that some municipalities do not accurately populate the cash flow Tables C7 and SC9. For instance, the actual cash flow figures for the first 6 months of the financial year in Table SC9 do not correspond to the Year-To-Date (31 December 2015) figures reported in Table C7. A municipality's cash position is one of the most important indicators of financial health; therefore, accurate completion of the cash flow Tables C7 and SC9 is imperative as it impacts directly on the funding position of a municipality. Over and above accurate completion of the aforementioned tables, municipalities are also required to provide Provincial Treasury with the Bank Reconciliations, Bank Statements, Investments Register, Grants Register as well as the Trial Balance (National Treasury MFMA Circular 67) as at 31 December 2015; which will assist Provincial Treasury in our assessment of your municipality's cash position as at 31 December 2015.

Please note that **Version 2.7 of C Schedule (the Excel Formats) must be used for the compilation of the 2015/16 Mid-Year Budget and Performance Assessment Reports.** This version can be downloaded from the National Treasury's website by using the following link:

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

Refer to **Annexure A** for a summary of the requirements for the preparation of the Mid-Year Budget and Performance Assessment Report.

Failure to submit the Section 72 Report in the correct format constitutes a contravention of Regulation 33 of the MBRR promulgated through Section 168 of the MFMA. Thus, non-compliance with Regulation 33 of the MBRR can be construed as financial misconduct in terms of Section 171(1)(a) of the MFMA which states: *the Accounting Officer of a municipality commits an act of financial misconduct if that Accounting Officer deliberately or negligently contravenes a provision of this Act.* In such instances, Provincial Treasury will not be able to provide any comments on the Mid-Year Budget and Performance Assessment Reports.

D. Assessment of the Mid-Year Budget and Performance Assessment Report and Engagements with municipalities

Provincial Treasury will undertake an assessment of your municipality's 2015/16 Mid-Year Budget and Performance Assessment Report and intends to visit and constructively engage with municipalities on their Mid-Year Budget and Performance Assessment Report prior to issuing final feedback reports to municipalities. This is in line with Provincial Treasury's monitoring and oversight role.

The engagements will include, amongst others:

- Discussion on performance against the Operating, and Capital Budgets;
- Assessment of Cash flow positions and projections;
- Spending on Infrastructure Delivery;
- Progress on spending against National and Provincial Conditional Grants;
- Preparation of the Adjustments Budget; and
- SCM related issues.

These engagements will ensure that the responses and comments from the municipalities are considered and incorporated into Provincial Treasury's final feedback report to be shared with municipalities. While the engagement will assist in identifying the challenges faced by municipalities, it will also assist in indicating the areas in which the municipalities require support. The outcome of the engagements as well as the final feedback reports on the Mid-Year Budget and Performance Assessment Reports will then inform and guide the preparation of the 2015/16 Adjustments Budgets. This process will strengthen the quality of municipal budgeting and performance as well as Provincial Treasury's oversight thereof.

In respect of these engagements, municipalities are required to prepare presentations which will cover the following:

- Performance against the Operating and Capital Budgets;
- Cash flow position and projections;
- Spending on Infrastructure delivery; and
- Progress on spending against National and Provincial Conditional Grants.

A template to guide municipalities with the preparation of the presentation and a detailed agenda for the engagement will be sent to your municipality in due course. Municipalities would be required to submit the presentations to Provincial Treasury at least **three (3) working days prior to the scheduled engagement** to ensure that the information is disseminated timeously to all the participants.

To ensure that all relevant role players in the budget process of the municipality are represented, Provincial Treasury requires that the Municipal Manager, the Chief Financial Officer and the Senior Managers responsible for at least the three largest votes in the municipality, the manager responsible for budgeting, planning and any technical experts on infrastructure be available for the engagement. The municipality should also invite the Budget Steering Committee or Finance Committee Chairperson, however, this is not mandatory.

The designated Analysts within Provincial Treasury will contact you in due course to arrange a date and time for the meeting.

Municipalities are required to table the feedback reports from Provincial Treasury on their Mid-Year Budget and Performance Assessments to their Municipal Council and include a paragraph in their Council resolution as a proof that this request was carried out. Provincial Treasury firmly believes that the tabling of the feedback reports from Provincial Treasury on the Mid-Year Budget and Performance Assessment Report will not only bring the issues raised to the attention of full Council, but also empower the entire Council and administration on the collective approach to be followed by municipalities in implementing the recommendations as well as addressing all weaknesses identified with the intention of having an informed Adjustments Budget.

E. 2015/16 Adjustments Budget Process

Section 72(3) of the MFMA requires that the accounting officer must as part of the (mid-year) review:

- (a) make recommendations as to whether an adjustments budget is necessary; and*
- (b) recommend revised projections for revenue and expenditure to the extent that this may be necessary.*

In addition, Regulation 23(3) of the MBRR 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 MFMA in the municipal Council to appropriate these additional revenues.*

In terms of Section 28(2) of the MFMA, 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.*

Regulation 21 of the MBRR states that *an Adjustments Budget and supporting documentation of a municipality must be in the format specified in Schedule B and include all the tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of Section 168(1) of the Act.*

Please note that **Version 2.7 of B Schedule (the Excel Formats) must be used for the compilation of the 2015/16 Adjustments Budget.** This version can be downloaded from the National Treasury's website using the following link:

[www.treasury.gov.za/Legislation/MFMA/Regulations and Gazettes/Municipal Budget and Reporting Regulations.](http://www.treasury.gov.za/Legislation/MFMA/Regulations_and_Gazettes/Municipal_Budget_and_Reporting_Regulations)

Some municipalities table the Adjustments Budget in Council in their own format and thereafter populate and submit the B Schedule. **This practice is illegal.** 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 Act must be in the format in which it will eventually be approved by the Council.*

Therefore, the municipality must table in Council, the Adjustments Budget in the prescribed format as set out in Schedule B of the MBRR and submit both the electronic and hard copies to the National and Provincial Treasuries. Refer to **Annexure B** for a summary of the requirements.

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

When processing virements in the annual budget, the municipality should consider MFMA Circular No. 51 and ensure that the virements are made in accordance with the municipality's approved virements policy. 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.).

As indicated earlier, municipalities are reminded that in terms of Regulation 23 of the MBRR, they must table the *adjustments budget referred to in Section 28(2)(b), (d) and (f) of the MFMA 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 of the current year.*

F. Adjusted Allocations

To support municipalities with meeting the requirements of Regulation 23(3) of the MBRR, Provincial Treasury has attached the allocations in terms of the Division of Revenue Amendment Bill (DoRB) and Provincial Adjustments Estimates:

- Division of Revenue Amendment Bill (DoRB) in Government Gazette No. 39277 of 09 October 2015. Refer to **Annexure C**.
- Extract from the Provincial Gazette (preliminary until the gazette is published - Refer to **Annexure D**). The 2015 Provincial Adjustments Estimate which was tabled in the Provincial Legislature on 26 November 2015. The Provincial Government Gazette reflecting these adjustments will be made available to the municipalities by the third week of December 2015.

Municipalities are reminded to take note of the adjustments to the allocations and ensure that the relevant adjustments are reflected in their 2015/16 Adjustments Budget.

G. Submission of the Mid-Year Budget and Performance Assessment Report and Adjustments Budget

Section 72(1)(b) of the MFMA requires that a report on the performance of the municipality (Mid-Year Budget and Performance Assessment Report) be submitted to the Mayor, Provincial Treasury and National Treasury. Submission of the municipal Adjustments Budget to National and Provincial Treasuries is legislated in Section 28(7) of the MFMA.

Municipalities are urged to ensure compliance with the following submission dates of both printed and electronic formats;

- Mid-Year Budget and Performance Assessment Reports – on or before **25 January 2016** to the Mayor, National and Provincial Treasuries as per Regulation 35(a) of the MBRR; and
- 2015/16 Adjustments Budget – **within ten working days after** the municipal Council has approved the Adjustments Budget to National and Provincial Treasuries as per Regulation 24(1) of the MBRR.

Please note that failure to submit these documents timeously may lead to the municipalities’ Mid-Year Budget and Performance Assessment Reports and the 2015/16 Adjustments Budget not being assessed and the municipality not receiving valued comments thereon from Provincial Treasury.

The Accounting Officer must also, as per the above mentioned deadlines, submit the relevant budget documentation **in both printed and electronic formats** to the National and Provincial Treasuries as set out in:

- Schedule C of the MBRR - 2015/16 Mid-Year Budget and Performance Assessment Report and
- Schedule B of the MBRR - 2015/16 Adjustments Budget.

The contact details are:

National Treasury

Printed copies of the required documents can be sent to:

Posted documents:

Ms Linda Kruger
National Treasury
Private Bag X115
Pretoria, 0002

Couriered documents:

Ms Linda Kruger
National Treasury
40 Church Square
Pretoria

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 e-mail, arrangements for them to be downloaded from the municipality's website must be made with Elsabe Rossouw (e-mail: elsabe.rossouw@treasury.gov.za) or alternatively, the municipality can use the following e-mail address: lgbigfiles@gmail.com.

Provincial Treasury

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

The Provincial MFMA Coordinator
Provincial Treasury
7th Floor Treasury House
145 Chief Albert Luthuli Road
Pietermaritzburg
3201

FOR ATTENTION: MR F. CASSIMJEE

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

H. Publication of Mid-Year Budget and Performance Assessment Report and Adjustments Budget

Municipalities must comply with Regulation 34 of the MBRR which requires that *within five working days of 25 January each year the municipal manager must make the Mid-Year Budget and Performance Assessment public by placing it on their website.*

Regulation 26 of the MBRR relates to the publication of the approved Adjustments Budget. *Within ten working days after the Municipal Council has approved an adjustments budget, the municipal manager must in accordance with Section 21A of the Municipal Systems Act make public the approved Adjustments Budget and supporting documentation including the resolutions referred to in Regulation 25(3).* The Adjustments Budget must also be placed on the municipal website within five days after tabling in Council as per Section 75(1) and (2) of MFMA.

Municipalities are urged to comply with the above Sections and Regulations as it is an important step in the 2015/16 Mid-Year Budget and Performance Assessment and Adjustments Budget processes.

The onus rests on the Accounting Officer to ensure that the municipality fully complies with all the reporting requirements, however, Mayors are urged to ensure that their respective municipalities adhere to the requirements of this Circular.

Yours sincerely



MR L.S. MAGAGULA
HEAD OF DEPARTMENT: PROVINCIAL TREASURY

DATE: 07/12/2015

CC **MAYORS**
JAN HATTING, NATIONAL TREASURY
TV PILLAY, NATIONAL TREASURY
VANUJA MAHARAJ, BUSINESS EXECUTIVE - AUDITOR GENERAL

EXTRACT FROM SCHEDULE C OF MBRR IN-YEAR REPORTS OF MUNICIPALITIES

Format and content of the in-year reports

1. An in-year report of a municipality must have all the headings in the sequence shown in the table of contents below, contain the information described in this Schedule and be appropriately page numbered, taking into account any guidelines issued by the Minister in terms of Section 168(1) of the Act.

Table of the contents

2. An in-year report must commence with a table of contents and show the headings in the sequence set below –

PART 1- IN-YEAR REPORT

- Mayor's report (required if tabled in the municipal council)
- Resolutions (required if tabled in the municipal council)
- Executive summary
- In-year budget statement tables

PART 2- SUPPORTING DOCUMENTATION

- Debtors' Analysis
- Creditors' Analysis
- Investment portfolio analysis
- Allocation and grant receipts and expenditure
- Councillor and board member allowances and employee benefits
- Material variances to the service delivery and budget implementation plan
- Parent municipality financial performance
- Municipal entity financial performance
- Capital programme performance
- Other supporting documents
- In-year reports of the municipal entities attached the municipality's in-year report
- Municipal manager's quality certification

ANNEXURE B

EXTRACT FROM SCHEDULE B OF MBRR ADJUSTMENTS BUDGETS AND SUPPORTING DOCUMENTATION OF MUNICIPALITIES

Format and content of adjustments budgets and supporting documentation

1. An adjustments budget and supporting documentation of a municipality that is –
 - (a) Contemplated in sub-regulation 23(1) must have all the headings in the sequence shown in the table of contents below, contain the information described in this Schedule and be appropriately page numbered, taking into account any guidelines issued by the Minister in terms of Section 168(1) of the Act, and
 - (b) is contemplated in sub-regulations 23(3), (4), (5) and (6) must have all the headings in the sequence shown in Part 1 of the table of contents below, and the heading that are relevant to the particular headings adjustments budget from Part 2 of the table of contents below, and contain the information described in relation to the relevant headings in this Schedule and be appropriately page numbered, taking into account any guidelines issued by the Minister in terms of Section 168(1) of the Act

Table of contents

2. An adjustments budget and supporting documentation must commence with a table of contents and show the relevant headings in the sequence set out below –

PART 1 – ADJUSTMENTS BUDGET

- Mayor's report
- Resolutions
- Executive summary
- Adjustments budget tables

PART 2 – SUPPORTING DOCUMENTATION

- Adjustments to budget assumptions
- Adjustments to budget funding
- Adjustments to expenditure on allocations and grant programmes
- Adjustments to allocations and grants made by the municipality
- Adjustments to councillor allowances and employee benefits
- Adjustments to service delivery and budget implementation plan
- Adjustments to capital expenditure
- Other supporting documents
- Municipal manager's quality certification.