



treasury

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## OFFICE OF THE HEAD OF DEPARTMENT

Our Ref: 11/6/13/6  
Enquiries: Mr F. Cassimjee  
Date: 23 March 2016

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

### PROVINCIAL TREASURY CIRCULAR TC/RM7 OF 2015/16

#### MUNICIPAL BUDGET PROCESS - 2016/17

Section 5(4)(a)(ii) read together with Section 5(4)(b) of the Municipal Finance Management Act (Act No. 56 of 2003) (MFMA) indicate that Provincial Treasury is not only responsible to monitor the preparation of municipal budgets, but, also may assist municipalities in the preparation of their annual budgets.

The aim of this circular is to draw the attention of the municipalities to the legislative requirements regarding the preparation of 2016/17 budgets, and to guide and support all municipal officials in their quest to prepare reliable and credible budgets prior to approval. The objectives of this Circular are outlined as follows in order to achieve the aim described above:

- Through this circular, the Provincial Treasury hereby indicates its intention to engage with the municipalities on the 2016/17 MTREF budgets before they are approved by Council.
- Attached in this circular is a schedule of 2016 Consolidated Gazette of Transfers reflecting allocations from the Provincial Government (**Annexure A**) for consideration and incorporation by municipalities into the 2016/17 tabled MTREF Budgets.
- We have attached **Annexure B** which describes the basic contents and information which the 2016/17 MTREF Budgets are expected to include as per the requirements of the Municipal Budget and Reporting Regulations (MBRR).
- When compiling the Budgets, it is important for the municipalities to keep as evidence, which is readily available, all the sources of information used in the compilation of the budget. To this end, we attached **Annexure C** (the Budget Working Paper File) which describes the minimum information to be filed as supporting evidence in the process of preparing the budget.
- We have also attached as **Annexure D** the Checklist which will be useful to assess the extent to which some of the basic processes involved in the budget preparation have been complied with as per the requirements of the MFMA and MBRR.

This circular complements MFMA Circulars No. 78 and 79 on the 2016/17 MTREF issued by National Treasury. In the process of compiling their budgets, it is important for the municipalities to consider not only National Directives, but also the Provincial Directives such as the State of Provincial Address by the Premier as well as the Provincial Budget speech by the MEC for Finance, both having a direct influence on the 2016/17 MTREF Budgets of the municipalities.

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The following areas are covered in this circular:

- A. Format Requirements for the 2016/17 MTREF Municipal Budget;
- B. Re-determination of Municipal Boundaries
- C. 2016/17 Budget Verification Process;
- D. Further matters for consideration in the 2016/17 Budget Process;
- E. Hand-over report for the newly elected council;
- F. Municipal Standard Chart of Accounts (mSCOA);
- G. Cost Containment Measures;
- H. Funding of the 2016/17 MTREF Budgets;
- I. Provincial Transfers to Municipalities (Annexure A);
- J. Budget Steering Committee (BSC);
- K. Service Delivery and Budget Implementation Plans (SDBIPs);
- L. Preparation of the Municipal Budget Working Paper File (Annexure C);
- M. 2016/17 Budget Preparation Checklist;
- N. Budget Documents Required;
- O. Certification that the Budget is correctly captured and locked in the Financial System;
- P. Publication of budgets on municipal websites;
- Q. Budget Submission Process; and Annexures.

#### **A. Format Requirements for the 2016/17 MTREF Municipal Budget**

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 Municipal Budget and Reporting Regulations (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 2.8 of the A1 Schedule (the Excel Format) to be used for the compilation of the 2016/17 MTREF Budget which incorporates all the relevant amendments.** Municipalities are referred to Annexure A of the MFMA Circulars No. 78 and 79 to note all the amendments that have been incorporated into Version 2.8.

**ALL** municipalities **MUST** therefore use this version in the preparation of their 2016/17 MTREF Budgets to be tabled on or before 31 March 2016. 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](http://www.treasury.gov.za/Legislation/MFMA/Regulations_and_Gazettes/Municipal_Budget_and_Reporting_Regulations)

In the past, some municipalities tabled their MTREF Budgets in their own formats in Council and thereafter populated and submitted the A1 Schedule. 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 the municipalities are required to ensure that the 2016/17 MTREF Budgets are tabled for comments and approval in the Council as per the requirements set out in Schedule A1 of the MBRR and submitted to the National and Provincial Treasuries in Version 2.8.

**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 comments on the budget 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 2.8 format will be returned back to the Mayors and Municipal Managers of affected municipalities to be corrected and re-tabled by Council as per the requirement of MFMA Circular No.79.**

## **B. Re-determination of municipal boundaries**

All municipalities affected by the process of Re-determination of municipal boundaries are reminded to also follow the Provincial Gazettes No 1169 and 1594 in preparing their 2016/17 MTREF Budgets. Both Provincial Treasury and the Provincial Department of Co-operative Governance and Traditional Affairs (CoGTA) have issued circulars and other forms of guidance at the meetings and forums to support the affected municipalities in the process of restructuring. For all the municipalities affected by the process of re-determination of municipal boundaries, it should be noted that the allocations reflecting in Division of Revenue Bill (DoRB) 2016 are for the new municipalities.

Therefore based on the guidance by MFMA Circular No.79 and for the purpose of 2016/17 budgeting by all affected individual municipalities, the indicative amounts reflected on Division of Revenue Act (**DoRA**) 2015 should be used to apportion the 2016/17 MTEF allocations between the existing municipalities based on allocation to the new municipality in the 2016 DoRB. Of critical importance to note when apportioning the amounts, the total amounts for merging municipalities should be equal to the total amount allocated on 2016 DoRB for new municipality. MFMA Circular No. 79 also states that if the election date is after 1 July 2016, National Treasury will gazette the allocation which will be transferred in the meantime, to each of the affected municipalities for the period between 01 July 2016 and the Election Day.

The roles of Municipal Technical Change Management Committees (TCMCs) and the Municipal Political Change Management Committees (PCMCs) are critical in ensuring that the budgets of the affected municipalities are prepared in accordance with the guidance of MFMA Circular No.79. In the budget preparation process, both TCMCs and PCMCs should drive the processes to ensure that the merging municipalities plan together and furthermore, implement the measures contained in the Provincial Gazettes No. 1169 and 1594 to ensure that the restructuring process is smooth and the good financial health of the newly established municipalities is sustainable. In light of above, the following measures among the others are to be considered based on Provincial Gazettes No. 1169:

- the transfer of staff from the disestablished municipalities to the existing municipalities as well as the filling of vacancies during the transitional period;
- the acquisition and disposal of assets with a value exceeding R500 000 (five hundred thousand rand);
- the negotiation and approval of long term loans; and
- the utilisation of reserves.

TCMCs and PCMCs are also expected to perform the other crucial role of ensuring cooperation by merging municipalities when finalising and approving their budgets. Furthermore, TCMCs and PCMCs should drive the process of consolidating the budgets of merging municipalities.

**Over and above the tabling of the individual budget, the affected municipalities are advised to also table the consolidated budget for the new municipality as well as the individual budget of the municipality with which they are going to merge for noting by the council.**

**Municipalities are also reminded that in terms of Section 3 of Provincial Gazette No. 1594, any dispute relating to the preparation or approval of individual and consolidated budgets among the municipalities**



**affected by process of re-determination of the boundaries, must be promptly referred to the Provincial Transformation Committee for resolution.**

### **C. 2016/17 Budget Verification Process**

The Budget Verification process is an annual process conducted by National Treasury in conjunction with Provincial Treasury with the objective of ensuring that the MTREF Budgets submitted on the A1 Schedule perfectly match with all Annual Budget Returns uploaded to the LG Database by the municipalities. The verification process also covers all previous year's figures which should also be correctly aligned with the audited financial statements of the municipality and any restatement of figures. **The Budget Verification process affords the municipalities an ample opportunity to rectify any errors reflected in the returns which were already lodged with the LG Database, however within timeframes stipulated by National Treasury.**

National Treasury publishes each year, a consolidated set of budget information described above, for all the municipalities in the country. The process of publication is no longer in November of each year but has been brought forward with a view of informing the Medium Term Budget Policy Statement (MTBPS) as budgets are normally adopted in June.

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 Budget Verification process, Provincial Treasury is planning to follow a phase-in-approach according to the following dates:

- **From submission date of Budgets to 31 March 2016, a verification of all Audited Returns**
- **From 31 March 2016 to 29 April 2016, a verification of 2015/16 Adjusted Budget Returns**
- **From 29 April 2016 to 31 August 2016 a verification of 2016/17 Budget Returns**

In order to meet these deadlines, municipalities are required to cooperate and be fully committed to the process as follows:

- Municipalities must ensure that the A1 Schedule for the 2016/17 budget is fully and accurately completed and is submitted on time.
- As per the requirement of MFMA Circular No. 79 all the electronic A1 Schedules for the 2016/17 Budgets must be submitted to Provincial and National Treasuries on or before 01 April 2016.
- All related annual budget returns must be submitted to Provincial and National Treasury on or before 1 April 2016 also as per requirement of MFMA Circular No. 79.

### **D. Further matters for consideration in the 2016/17 Budget Process**

Similar to prior years' budget processes, Provincial Treasury intends to constructively engage with municipalities on the critical matters raised on the tabled 2016/17 MTREF Budgets in an attempt to produce more reliable and credible budgets before they are approved by Council. These engagements are to ensure that amongst others municipalities are afforded an ample opportunity to directly respond to critical issues raised by Provincial Treasury and for the incorporation of these responses by Provincial Treasury in the finalised Assessments which are expected to be tabled in Council together with other budget documents. By tabling in Council the Provincial Treasury's Assessments of 2016/17 MTREF Budgets will not only bring the highlighted issues to the attention of full Council but will empower and direct the entire Council as to which areas to pay particular focus when playing their Oversight role.

**The Provincial Treasury hereby request that a copy of the Council resolution or extract reflecting the Tabling of the Provincial Treasury's Assessment of 2016/17 MTREF Budget be included among the Budget documents to be submitted to both National and Provincial Treasury. Further, the municipalities are required to submit an action plan with timeframes on steps to be taken to address all errors and concerns raised in the assessment of the 2016/17 MTREF Budgets by Provincial Treasury.**

When preparing and tabling the 2016/17 MTREF Budgets, municipalities **must** ensure that they also indicate to what extent the budget is aligned to the National and Provincial priorities with special reference to the following directives:

- The National Development Plan (Outcomes 9 and 12).
- Provincial Growth and Development Plan (PGDP).
- The Department of Cooperative Governance Back to Basics Programme.
- Service Level Standards.

#### **E. Hand-over report for the newly elected council**

MFMA Circular No. 78 requires that the Municipal Manager together with Chief Financial Officer and entire senior management should prepare a handover report which can be tabled at the first meeting of the newly elected council. The aim of the hand-over report is to provide the new council with important orientation information regarding the municipality and key issues to be addressed. MFMA Circular No. 78 describes in detail the structure of information to be contained in the report. Once the new council is constituted, **Provincial Treasury will be monitoring the municipalities to ensure that the report is tabled at the first meeting of the new council. Municipal Managers and the entire senior management are encouraged to start immediately in preparing the Hand Over report to be ready for submission as soon as the new Municipal Council is constituted.**

#### **F. Municipal Standard Chart of Accounts (mSCOA)**

The implementation of the mSCOA project must be considered a business reform and it requires a significant change in municipal business processes and may involve system conversion or re-implementation. There is less than a year for all the municipalities to ensure that the mSCOA compliant system is in place and fully complied with by **1 July 2017**. Municipalities are required to include in their 2016/17 MTREF Budget, the budgeted amounts planned to be spent on mSCOA related activities. All the municipalities are required in MFMA Circular No. 78 to table and submit together with the 2016/17 Budget Documents, the mSCOA Project Plan as well as Progress Report on mSCOA implementation to date. The municipalities are also reminded to complete and submit the self-assessment tool on mSCOA implementation to Provincial Treasury by **31 March 2016**.

#### **G. Cost containment measures**

In the 2016 State of Nation Address and Budget Speech by the State President and Finance Minister respectively, the emphasis was made that the government should put cost containment measures in place in a bid to eliminate wasteful expenditure. In his 2016 State of Province Address, the KZN Premier indicated further that the KZN Province, like other Provinces is not immune from the economic downturn, severe drought and high level of unemployment. The MEC For Finance also re-iterated in her 2016 Budget speech, the importance of combating the wasteful and inefficient spending across all spheres of government in the wake of the weaker economic performance, rising debt costs and falling revenue projections.

Local government on the other hand is autonomous in its strategy formulation as guided by the Integrated Development Plan (IDP). However, local government is inter dependent on other spheres of government and is expected to comply accordingly in matters which also include fiscal, budgetary and financial disciplines.

In light of above, municipalities are strongly **urged to follow suit** by implementing cost containment measures and to align their budget policies accordingly. MFMA Circulars No. 58, 66, 70, 72, 74, 75,78 and 79 amongst others, list additional examples of non-priority expenditure which have been observed and municipalities are being reminded about the need to eliminate such expenditure. **MFMA Circular No. 79 requires the municipalities to table cost containment measures in Council and attach the evidence thereof together with the 2016/17 MTREF Budget to be submitted to National and Provincial Treasury.**

## H. Funding of the 2016/17 MTREF Budgets

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

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

Provincial Treasury has observed with great concern that in past financial years, some municipalities have been submitting unfunded budgets while some municipalities submitted the 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. 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 the MTREF period. The budgeted revenue projections in some cases were also based on collection rate assumptions which were not realistic.

On the other hand, 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 unrealistic picture of the *Total Application of cash and investments or incorrect end results of Surplus or Shortfall*. A reflection of negative *Cash/cash equivalents at the year-end* in Table A7 and *Shortfall Positions* in Table A8 raises a liquidity concern or is a strong indication that the budget is not Funded.

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

**It should be emphasised that Provincial Treasury will refer back to the Municipal Managers and Mayors all the unfunded budgets as well as the Budgets with incomplete Tables A7 and A8 to be corrected. Failures to address the weaknesses identified by Provincial Treasury will result in the MEC For Finance advising the National Treasury to consider stopping of the Equitable Share Transfer to the affected municipalities in terms of Section 38 of MFMA.**

## I. Provincial Transfers to Municipalities (Annexure A)

Municipalities are reminded to ensure that the allocations in their budgets for the Provincial and National transfers correspond to the allocations as reflected in the 2016 Consolidated Gazette of Transfers and the 2016 Division of Revenue Bill (DoRB) respectively.

Provincial allocations as per signed Memorandums of Agreement (MoA's) should not be included in the budget if they have not been gazetted. 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.

## **J. 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.

It is therefore clear that municipalities cannot make use of another committee if its composition does not meet these minimum composition requirements. The current BSCs are urged to ensure that the 2016/17 MTREF Budget process is completed timeously including the approval of the budget. As soon as the new councillors are formally constituted across all the delegated municipalities after the Local Government elections, Provincial Treasury will as in the past, amongst other support initiatives, provide training to the newly formed BSCs.

## **K. 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 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 Treasury in terms of Section 22(b)(i) of the MFMA, the Municipal Manager must also submit a draft SDBIP in both printed and electronic form. 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 tabled budget and preferably submit the draft SDBIP to the Mayor for initial approval with the tabled budget. It should include the following:

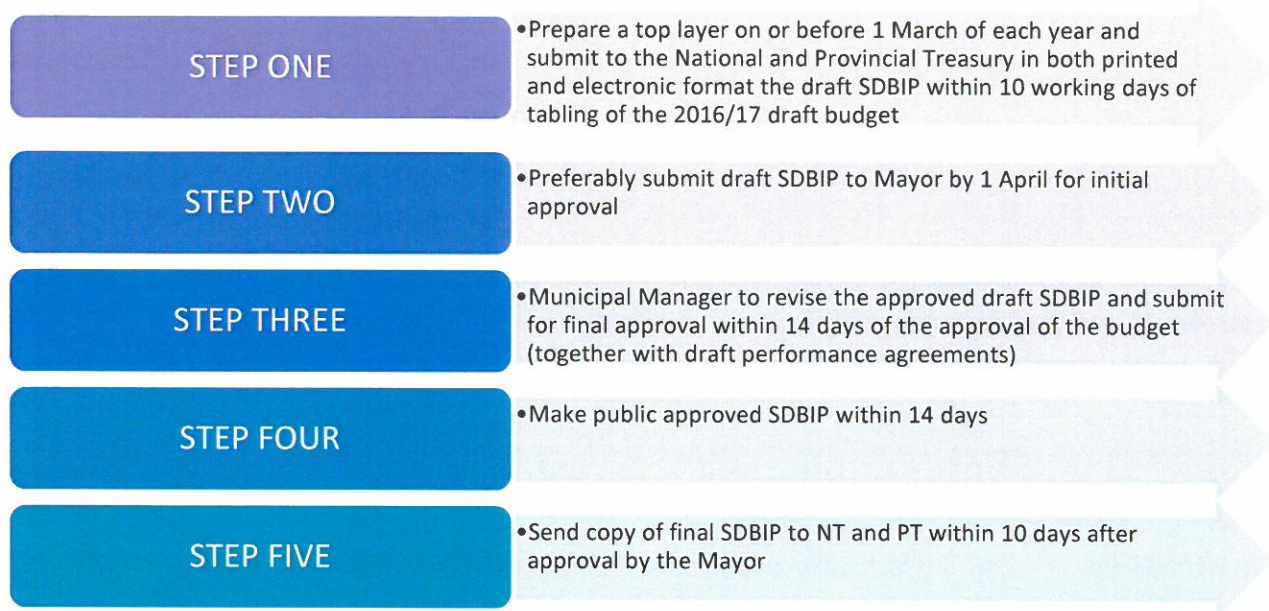
- 1) Projected revenue to be collected by source;
- 2) Projected operating and capital expenditure by vote; and
- 3) Service delivery targets and performance indicators for each quarter.

Once the 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 necessary 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.

### **L. Preparation of the Municipal Budget Working Paper File (ANNEXURE C)**

The following is intended to guide the 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 Annual Budgets.

#### **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 budgets.

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 Treasury. 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 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 Annual Budget.

### **Preparation and co-ordination**

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

### **M. 2016/17 Budget Preparation Checklist**

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

### **N. Budget Documents Required**

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 31 March 2016, the final date of the submission of **the electronic budget documents and corresponding electronic returns is Friday, 01 April 2016**. The deadline for submission of the hard copies including the council resolution is **Friday, 8 April 2016**, however; early submission of these documents is encouraged.

The Budget related information listed in the MBRR Schedule A (**Annexure B**) must be submitted to Provincial and National Treasury. After receiving the tabled budget, Provincial Treasury will complete a Compliance Checklist. This checklist will indicate the level of compliance to the MBRR by the municipality. A copy of the checklist will be sent to the National Treasury and the municipality in order to facilitate improvements in the quality of submission and completion of tables for the budgets.

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 2016**, the final date for such a submission is **Tuesday, 14 June 2016**, otherwise an earlier date applies.

Provincial Treasury should be invited to attend and observe the sessions for the tabling and approval of MTREF Budgets in the municipal councils.

## **O. 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 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 emphasise that the approved set of figures are always presented for various purposes throughout the financial year. Therefore, the certificates indicating that the budget is correctly captured and 'locked' in the financial system must be submitted to National and Provincial Treasury together with the approved 2016/17 MTREF Budget documents as per MFMA Circular No. 79 on the submission date described above.

## **P. Publication of budgets on municipal websites**

In terms of Section 75(1) of the MFMA, municipalities are required to place amongst the other documents, the annual budgets on its 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 occurs first. Provincial Treasury has observed with a great deal of concern that certain municipalities are not timeously placing their documents including the budgets and all related documents on the websites. All delegated municipalities are required to place their 2016/17 Tabled MTREF Budgets and all related documents on websites timeously according to timeframes described above. This will not only promote accountability and good governance but will also facilitate the process of public comments by all stakeholders.

## **Q. Budget Submission Process**

The Budget related information listed in the MBRR Schedule A (**Annexure B**) must be forwarded to the Provincial and National Treasury by the deadline dates indicated earlier. 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, 7<sup>th</sup> Floor Treasury House  
145 Chief Albert Luthuli Road  
Pietermaritzburg, 3201

### **FOR ATTENTION: NOMBUSO DLAMINI**

Electronic copies of the required documents must be e-mailed to [mfma@kzntreasury.gov.za](mailto: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](mailto: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](mailto:Elsabe.Rossouw@treasury.gov.za)).

Yours sincerely

*for*  23 MARCH 2016  
**MR L.S. MAGAGULA**  
**HEAD OF DEPARTMENT**

CC MEC FOR FINANCE –KZN PROVINCIAL TREASURY  
MAYOR  
JAN HATTINGH, NATIONAL TREASURY  
TV PILLAY, NATIONAL TREASURY  
VANUJA MAHARAJ, BUSINESS EXECUTIVE – KZN AUDITOR GENERAL



## **Annexure B**

### **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.

## Annexure C

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	<b>Revenue by Source</b>	
1.1	Property Rates – including penalties and collection charges	<ul style="list-style-type: none"> <li>❖ Valuation roll</li> <li>❖ Copy of rates policy</li> <li>❖ Proposed rate randage for the various categories of ratepayers</li> <li>❖ Proposed penalty and collection charge</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
1.2	Service Charges – Electricity Revenue	<ul style="list-style-type: none"> <li>❖ Monthly schedule of Kilowatts sold per category from July to current</li> <li>❖ Details of any new areas to be billed in the new financial year</li> <li>❖ Copy of tariff policy</li> <li>❖ Proposed tariffs</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
1.3	Service Charges – Water Revenue	<ul style="list-style-type: none"> <li>❖ Monthly schedule of Kiloitres sold per category from July to current</li> <li>❖ Details of any new areas to be billed in the new financial year</li> <li>❖ Copy of tariff policy</li> <li>❖ Proposed tariffs</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
1.4	Service Charges - Waste Removal / Refuse Revenue	<ul style="list-style-type: none"> <li>❖ Monthly schedule of households/businesses per category from July to current</li> <li>❖ Details of any new areas to be billed in the new financial year</li> <li>❖ Copy of tariff policy</li> <li>❖ Proposed tariffs</li> <li>❖ Any other relevant documentation</li> </ul>
1.5	Service Charges - Other	<ul style="list-style-type: none"> <li>❖ Details of service charges other</li> <li>❖ Copy of tariff policy</li> <li>❖ Proposed tariffs</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
1.6	Rental of facilities and equipment	<ul style="list-style-type: none"> <li>❖ Schedule of rental facilities and equipment</li> <li>❖ Copies of lease agreements for rental properties</li> <li>❖ Proposed tariffs</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
1.7	Interest earned external investments	<ul style="list-style-type: none"> <li>❖ Details of proposed investments</li> <li>❖ Copy of cash management and investments policy</li> <li>❖ Estimated interest rates</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
1.8	Interest earned outstanding debtors	<ul style="list-style-type: none"> <li>❖ Copy of debt collection and credit control policy</li> <li>❖ Proposed interest rate</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
1.9	Fines	<ul style="list-style-type: none"> <li>❖ Details of the various fines (eg traffic, library, etc)</li> <li>❖ Proposed tariffs</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
1.10	Licences and permits	<ul style="list-style-type: none"> <li>❖ Schedule of license and permit holders</li> <li>❖ Proposed tariffs</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>

## Annexure C/continues...

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
1.11	Agency services	<ul style="list-style-type: none"> <li>❖ Schedule of agency agreements</li> <li>❖ Copies of agency agreements</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
1.12	Transfers recognised – Operational	<ul style="list-style-type: none"> <li>❖ Schedule of national and provincial grants to be transferred to the municipality</li> <li>❖ Copies of the relevant gazettes</li> <li>❖ Letters of confirmation from transferring authority where the grant to be received is not gazetted</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
1.13	Other revenue	<ul style="list-style-type: none"> <li>❖ Schedule of all other revenue</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
1.14	Gains on disposal of PPE	<ul style="list-style-type: none"> <li>❖ Schedule of assets to be disposed off</li> <li>❖ Copies of any policies dealing with the management and disposal of assets</li> <li>❖ Copies of council resolution if applicable authorising the disposal</li> <li>❖ Estimated book value of the assets to be disposed of</li> <li>❖ Estimated proceeds to be received from the disposals</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
<b>2</b>	<b>Operating Expenditure by Type</b>	
2.1	Employee related costs	<ul style="list-style-type: none"> <li>❖ Copy of approved organogram</li> <li>❖ Copy of signed agreement between the employer representative and the unions on the applicable wage agreement in force</li> <li>❖ Copy of relevant policies (e.g. travel, s&amp;t, cell phone, overtime, etc)</li> <li>❖ Details of employer contributions to medical aids, pension funds etc</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
		<ul style="list-style-type: none"> <li>❖ Listing of all councillors</li> <li>❖ Copy of previous years gazette for reference purposes</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
2.3	Debt impairment	<ul style="list-style-type: none"> <li>❖ Copy of debt collection and credit control policy</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
2.4	Depreciation and asset impairment	<ul style="list-style-type: none"> <li>❖ Copy of assets register</li> <li>❖ Copies of any policies dealing with the management of assets</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
2.5	Finance charges	<ul style="list-style-type: none"> <li>❖ Copy of loans register</li> <li>❖ Copies of loan agreements</li> <li>❖ Copies of amortisation schedules for each loan</li> <li>❖ Details of any new anticipated loans</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
2.6	Bulk Purchases	<ul style="list-style-type: none"> <li>❖ Monthly schedule of Kilowatts purchased for Electricity from July to current</li> <li>❖ Monthly schedule of Kilolitres purchased for Water from July to current</li> <li>❖ Details of any new areas to be billed in the new financial year</li> <li>❖ Copies of any policies related to managing electricity and water</li> <li>❖ Estimated price increases from bulk suppliers</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
2.7	Other materials	<ul style="list-style-type: none"> <li>❖ Listing of other materials</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
2.8	Contracted services	<ul style="list-style-type: none"> <li>❖ Copy of contracts register</li> <li>❖ Copies of contracts</li> <li>❖ Details of any new anticipated contracts</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
2.9	Transfers and grants	<ul style="list-style-type: none"> <li>❖ Details of transfers and grants</li> <li>❖ Copies of any policies related to the provision of free basic services</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
2.10	Other expenditure – including repairs and maintenance	<ul style="list-style-type: none"> <li>❖ Details of other expenditure – including repairs and maintenance</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
2.11	Loss on disposal of PPE	<ul style="list-style-type: none"> <li>❖ Schedule of assets to be disposed off</li> <li>❖ Copies of any policies dealing with the management and disposal of assets</li> <li>❖ Copies of council resolution if applicable authorising the disposal</li> <li>❖ Estimated book value of the assets to be disposed of</li> <li>❖ Estimated proceeds to be received from the disposals</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>



Annexure C/continues...

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
<b>3. Capital Sources of Revenue</b>		
		<ul style="list-style-type: none"> <li>❖ Schedule of national and provincial grants to be transferred to the municipality</li> <li>❖ Copies of the relevant gazettes</li> <li>❖ Letters of confirmation from transferring authority where the grant to be received is not gazetted</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
3.2	Public contributions & donations	<ul style="list-style-type: none"> <li>❖ Details of public contributions and donations</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
3.3	Borrowing	<ul style="list-style-type: none"> <li>❖ Copy of borrowing policy</li> <li>❖ Copies of loan agreements</li> <li>❖ Details of expected borrowings and related projects</li> <li>❖ Copy of council resolution authorising the proposed borrowing</li> <li>❖ Any documentation to the support the budget</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
3.4	Internally generated funds	<ul style="list-style-type: none"> <li>❖ Copy of the funding and reserves policy</li> <li>❖ Details of the projects to be funded</li> <li>❖ Evidence of available funds</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
<b>4. Capital Expenditure</b>		
		<ul style="list-style-type: none"> <li>❖ Copy of draft/approved IDP</li> <li>❖ Copies of any policies dealing with infrastructure investment and capital projects</li> <li>❖ Listing of projects referenced to the IDP together with sources of finance</li> <li>❖ Copy of procurement/projects plan</li> <li>❖ Any documentation in support of the budgeted figures</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
<b>5. Loan Repayments</b>		
		<ul style="list-style-type: none"> <li>❖ Copy of loans register</li> <li>❖ Copies of loan agreements</li> <li>❖ Copies of amortisation schedules for each loan</li> <li>❖ Details of any new anticipated loans</li> <li>❖ Budget calculation workings</li> <li>❖ Any other relevant documentation</li> </ul>
<b>6. Compliance/Performance Information</b>		
		<ul style="list-style-type: none"> <li>❖ Copy of the approved key deadlines for the preparation, tabling and approval of the annual budget (S.21(b) of the MFMA)</li> <li>❖ Copy of the council resolution approving such</li> <li>❖ 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)</li> <li>❖ Copy of the tabled budget in Schedule A</li> <li>❖ Copy of the advertisement making public the annual budget and inviting the local community to make to make representations in connection with the budget (S.22(a)(i) and (ii) of the MFMA)</li> <li>❖ 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)</li> <li>❖ 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)</li> <li>❖ 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)</li> <li>❖ Copy of the approved Schedule A</li> <li>❖ 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)</li> <li>❖ 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)</li> <li>❖ Copies of all approved budget related policies</li> <li>❖ Copy of approved tariff of charges</li> <li>❖ Any other relevant documentation</li> </ul>
<b>7. Service Delivery and Budget Implementation Plan (SDBIP)</b>		
		<ul style="list-style-type: none"> <li>❖ Copies of performance agreements of senior management</li> <li>❖ Copies of any relevant gazettes, circulars etc</li> <li>❖ Copy of the draft SDBIP</li> <li>❖ 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)</li> <li>❖ Copy of the approved SDBIP</li> <li>❖ Alignment between budget and SDBIP</li> <li>❖ 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))</li> <li>❖ 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)</li> <li>❖ Any other relevant documentation</li> </ul>

## Annexure D

2016/17 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 2016/17 MTREF Budget				
1.1	That there is sufficient consultation process of IDP and Budget including sector departments and other stakeholders such as Rates Payers' Associations,				
1.2	The Valuation Roll is updated and captured on the system,				
1.3	Updated Valuation roll should be used to budget for Property rates revenue and Service charges,				
1.4	Timeous Application of Tariff with Eskom as from 04 November.2013				
1.5	The review of the following budget related policies: <ul style="list-style-type: none"> <li>❖ Tariffs</li> <li>❖ Rates</li> <li>❖ Credit control and debt collection</li> <li>❖ Cash management and investment</li> <li>❖ Borrowing</li> <li>❖ Funding and reserves</li> <li>❖ Long-term financial plan</li> <li>❖ Supply chain management</li> <li>❖ Management and disposal of assets</li> <li>❖ Infrastructure investment and capital projects</li> <li>❖ Indigents</li> <li>❖ Free basic services</li> <li>❖ Budget implementation and monitoring</li> <li>❖ Personnel</li> <li>❖ Managing electricity and water</li> <li>❖ Any other budget related or financial management</li> <li>❖ Municipal entities</li> <li>❖ Draft Service Delivery and Budget Implementation Plans (SDBIP)</li> </ul>				
1.6	That the MFMA Budget circulars from National and Provincial Treasuries are considered in the preparation of the draft 2014/15 MTREF Budget				
1.7	The receipt of 2016 DoRA and Provincial Gazette to ensure that all allocations are correctly considered in the draft 2016/17 MTREF Budget.				
1.8	That the audited outcome figures for the 2012/13, 2013/14 and 2014/15 financial years in Schedule A1 agree to the Audited AFS. (and where applicable, reinstated 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 HOD to assist CFO with provision of 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)				
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				

## Annexure D/ continues...

2016/17 Budget Preparation Process Checklist					
Kindly note that the Processes highlighted in this document are not exhaustive, they are only provided as guidance and can therefore be enhanced where appropriate					
No.	Process	Commenced	Progress <i>(Please provide a copy of the progress report)</i>	Finalised <i>(Please provide a copy of the final report)</i>	Not done
1.16	That the draft 2016/17 SDBIP is prepared in accordance with MFMA Circular No. 13 of National Treasury.				
1.17	That the draft 2016/17 SDBIP is aligned to the IDP and draft 2016/17 Budget.				
1.18	That the electronic budget in A1 Schedule and related annual returns are submitted to PT and NT on 1 April 2016				
1.19	That the draft 2016/17 SDBIP is timely 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 14 percent 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 <a href="mailto:Jan.Hattingh@treasury.gov.za">Jan Hattingh (email: jan.hattingh@treasury.gov.za)</a>				
1.22	The draft budget and all related documents must be submitted to National and Provincial Treasuries within 10 working days after tabling as per Section 20(1) of the MBRR for comments				
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.				
<b>2</b>	<b>CASH FUNDING POSITIONS OF THE BUDGET</b>				
<b>2.1</b>	<b>Tables A7: Budget Cash Flow</b>				
	❖ Has Table A7 been fully populated?				
	❖ Have the correct figures been captured in Table A7's Adjusted Budget and Audited Outcome Columns? <i>This is critical to indicate if correct opening balance where being carried over MTREF</i>				
	❖ Have correct opening and closing balances of <b>Cash and Cash equivalents</b> been carried over the MTREF period.				
	❖ Is Cash flow balance on Table A7 positive?				
<b>2.2</b>	<b>Tables A8: Cash backed reserves/accumulated surplus reconciliation</b>				
	Has Table A8 been fully populated? ❖ <i>The table must be fully completed including items such as: Unspent conditional grants, Statutory requirements, Other working capital requirements, Other provisions etc.</i>				
	❖ Is Cash balance on Table A8 showing a surplus?				
<b>3</b>	<b>The municipality must ensure the following regarding the tabling and approval of 2016/17 MTREF Budget:</b>				
3.1	That the budget in prescribed format (A1 Schedule ver2.8, reviewed budget related policies and all other related documents are tabled in line with the budget timetable by 30 May 2016.				
3.2	That the PT's comments on 2016/17 draft budget are also tabled together with 2016/17 MTREF Budget for final approval.				
3.3	Ensure designated municipal official to work with relevant Municipal Budget Analyst in PT regarding the 2016/17 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				





