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To: **MAYORS
MUNICIPAL MANAGERS
CHIEF FINANCIAL OFFICERS
KWAZULU NATAL MUNICIPALITIES**

PROVINCIAL TREASURY CIRCULAR PT/MF 5 OF 2017/18

FINDINGS ON THE 2017/18 MUNICIPAL BUDGET ASSESSMENT/EVALUATION

Provincial Treasury assessed the 2017/18 Tabled Budgets of all 51 delegated municipalities as required by Section 22 of the Municipal Finance Management Act (MFMA), read in conjunction with Section 23(1) of the MFMA which states that *the municipal council must consider any views of the National Treasury, the relevant Provincial Treasury and any provincial or national organs of state or municipalities which made submissions on the budget.*

1. PURPOSE

The purpose of this circular is to:

- Share with all KwaZulu-Natal Mayors the findings of the Tabled Budget assessment/evaluation process for the delegated municipalities in KwaZulu-Natal; and
- highlight some of the key non-compliance arrears and arrears of weaknesses and common mistakes which municipalities should consider and address (where applicable) when preparing their 2017/18 Adjustments Budget and the 2018/19 MTREF Budgets.

2. BACKGROUND AND DISCUSSION

Tabling of the 2017/18 Time schedules outlining key deadlines for the budget process

Section 21(1)(b) of the Municipal Finance Management Act (Act No. 56 of 2003) (MFMA) requires the Mayor of a municipality to table in Council at least 10 months before the start of the budget year, a *Time schedule outlining key deadlines* for the

budget process. One of the objectives of this section is to ensure that the budget preparation process commences timeously and complies with all legislative requirements.

In this regard, 34 of the 51 delegated municipalities timeously tabled their *Time schedule outlining key deadlines* by 31 August 2016 as per the requirements of the MFMA. Table 1 shows the municipalities which did not table their *Time schedule outlining key deadlines* by the prescribed deadline of 31 August 2016. Non-compliance letters to the Mayors of these municipalities were sent from my office.

Table 1: Municipalities which tabled their 2017/18 Time schedules outlining key deadlines after 31 August 2016

No	Name of municipality	No	Name of municipality	No	Name of municipality
1	uThukela DM	7	Nquthu	13	eMadlangeni
2	eNdumeni	8	Mthonjaneni	14	Maphumulo
3	Amajuba DM	9	uMfolozi	15	Mtubatuba
4	New castle	10	Zululand DM	16	uMngeni
5	uMzinyathi DM	11	uPhongolo	17	uMgungundlovu DM
6	uMvoti	12	eDumbe		

Source: KZN Provincial Treasury

Only Nquthu Municipality out of the 17 municipalities shown in Table 1 did not subsequently table their *Time schedule outlining key deadlines* in Council due to the political instability at the municipality.

As a pilot project, Provincial Treasury conducted a high level review on the *Time schedule outlining key deadlines*. Of the 50 delegated municipalities, 6 municipalities' *Time schedule outlining key deadlines*, as listed in Table 2 below, had gaps identified which were then communicated to the municipalities in writing.

Table 2: Municipalities where gaps were identified in their 2017/18 Time schedules outlining key deadlines

No	Name of municipality	No	Name of municipality	No	Name of municipality
1	uMvoti	3	Mthonjaneni	5	Mandeni
2	uPhongolo	4	Big Five Habisa	6	uMdoni

Source: KZN Provincial Treasury

Provincial Treasury's support to municipalities on the 2017/18 Municipal Budgets preparation process

Section 5(4)(a)(ii) of the MFMA states that *to the extent necessary to comply with subsection (3), a Provincial Treasury must monitor the preparation by municipalities in the province of their budgets*. Furthermore, Section 5(4)(b) of the MFMA states that *a Provincial Treasury may assist municipalities in the province in the preparation of their budgets*.

As part of the budget preparation process, all municipalities which supply electricity are expected to submit their applications for a tariff increase in line with Section 43 of the MFMA to the National Energy Regulator of South Africa (NERSA). To ensure

improvement in the quality of the tariff increase application by municipalities, NERSA together with Provincial Treasury conducted a two day workshop from 20 to 21 September 2016 in Pietermaritzburg. The purpose of the workshop was mainly to highlight the correct process of completing and submitting the relevant application forms as well as meeting the deadlines for various processes. The workshop was conducted for all delegated and non-delegated municipalities which are licenced to supply the electricity. Ninety six (96) municipal officials from 25 municipalities attended the workshop, which is an improvement in the number of attendees as compared to the 76 municipal officials who attended the workshop held in October 2015.

Furthermore, Provincial Treasury provided on-site technical support to a number of delegated municipalities with a view of ensuring, amongst others:

- That the correct Versions 2.8 and 6.1 of the prescribed Schedule A1 was used in the preparation of their 2017/18 Medium term Revenue & Expenditure Framework (MTREF) Budget;
- That the Annual Budget returns were correctly captured and reconciled to original sources of budget documents;
- That the 2017/18 MTREF budgets incorporated the requirements of the latest budget circulars, namely, MFMA Circulars No. 85 and 86; and
- That the applications forms for the increase of electricity tariffs which are lodged with NERSA were completed.

Technical support for the preparation of the 2017/18 Budget was provided to the 16 municipalities shown in Table 3 at their request:

Table 3: On-site technical support to municipalities on the 2017/18 budget preparation process

No	Name of municipality	No	Name of municipality	No	Name of municipality	No	Name of municipality
1	uMdoni	5	uMgungundlovu DM	9	Mtubatuba	13	Mthonjaneni
2	uMzambe	6	Nquthu	10	Big Five Hlabisa	14	Nkandla
3	uMuziwabantu	7	eDumbe	11	uMkhanyakude DM	15	Ndwedwe
4	uMngeni	8	Ulundi	12	uMlalazi	16	Maphumulo

Source: KZN Provincial Treasury

To further guide all 51 delegated municipalities with the preparation of their 2017/18 budgets and to monitor compliance with the Municipal Budget and Reporting Regulations (MBRR), Provincial Treasury issued Circular PT/MF 06 of 2016/17 dated 24 February 2017 to municipalities. The circular covered the following areas relating to the Budget preparation process:

- Preparation of the 2017/18 MTREF Municipal Budgets;
- Format Requirements for the 2017/18 MTREF Municipal Budgets;
- Funding Position of the 2017/18 MTREF Municipal Budgets;
- Assessment of the 2017/18 Draft Budget and Engagement with municipalities;
- Submission of the 2017/18 MTREF Municipal Budgets;

- Publication of the 2017/18 MTREF Municipal Budgets;
- 2017/18 MTREF Municipal Budget Verification Process;
- Budget Steering Committee (BSC);
- Service Delivery and Budget Implementation Plans (SDBIPs);
- Provincial and National Transfers to municipalities; and
- Further matters for consideration in the 2017/18 MTREF Municipal Budget Process.

The PT Circular included some of the areas of weaknesses and common mistakes identified by both Provincial and National Treasury in prior years that should have been considered and addressed (where applicable) by municipalities when preparing their 2017/18 MTREF budgets.

Section 23(2) of the MFMA states that *after considering all budget submissions, the Council must give the Mayor an opportunity to respond to the submissions; and if necessary, to revise the budget and table amendments for consideration by the Council.* In an attempt to assist municipalities in complying with Section 23(2) of the MFMA, a section was provided in the Budget assessment feedback report for the respective municipalities to provide responses to Provincial Treasury's comments with the submission of their Approved Budget Documents in accordance to Regulation 20 of the MBRR. In this regard, 11 municipalities shown in Table 4 provided responses in the required format.

Table 4: Municipalities that provided formal responses to Provincial Treasury's comments

No	Name of municipality	No	Name of municipality	No	Name of municipality
1	Richmond	5	King Cetshwayo DM	9	uMzimkhulu
2	Okhahlamba	6	Mandeni	10	Dr. Nkosazana Dlamini Zuma
3	Alfred Duma	7	iLembe DM	11	Harry Gwala DM
4	eMadlangeni	8	Greater Kokstad		

Source: KZN Provincial Treasury

Tabling of the 2017/18 Budgets

Section 16(2) of the MFMA states that *the Mayor of the municipality must table the annual budget at a Council meeting at least 90 days before the start of the budget year.*

With the exception of the eNdumeni and eDumbe Municipalities, all the delegated municipalities tabled their 2017/18 Budgets in Council by 31 March 2017. The uMzinyathi District Municipality and Nquthu Municipality, both tabled their 2017/18 Budgets to their respective Administrators.

The eNdumeni and eDumbe Municipalities did not request an extension for the late tabling of their 2017/18 Budget in line with Section 27(1) of the MFMA from my office. As a result, non-compliance letters from my office were issued to the two errant

municipalities. Subsequently, the eNdumeni and eDumbe Municipalities tabled their 2017/18 Budgets on 03 April and 07 April 2017, respectively.

Submission of the 2017/18 Tabled Budgets

Section 22(b)(i) of the MFMA requires that *immediately* after an annual budget is tabled in a municipal Council, the annual budget must be submitted to National and Provincial Treasury in both printed and electronic format. Only the uMshwathi Municipality did not timeously submit their 2017/18 Tabled Budget to Provincial Treasury and a non-compliance letter was issued to them in this respect.

Status of the 2017/18 Budgets Assessments/Evaluations

Upon the receipt of the tabled 2017/18 Budgets, Provincial Treasury undertook an assessment of the Tabled Budget and provided comments to the respective municipalities as per the requirements of Section 23(1) of the MFMA which states that *when the annual budget has been tabled, the Municipal Manager must consider any views of (a) the local community and (b) the National Treasury, the relevant Provincial Treasury and any provincial or national organs of state or municipalities which made submissions on the budget.* The assessment process also included compliance checks on all Tabled Budgets received to establish the level of compliance with the requirements of the MFMA and MBRR in general and to verify amongst others, whether:

- The Tabled Budgets submitted were in the correct version (versions 2.8 and 6.1 of Schedule A1) of the prescribed format (A Schedule);
- The information provided in the main budget Tables (A1 to A10) and supporting Tables (SA1-SA38) reconcile to the electronic budget returns submitted to lgdatabase@treasury.gov.za; and
- The information is sufficient to enable the assessments of the Tabled Budgets.

Provincial Treasury established that the 2017/18 Tabled Budgets for all delegated municipalities were in the correct format of versions 2.8 and 6.1 of Schedule A1 and the Tabled Budgets provided a reasonable basis for assessments and comments.

Of the 51 delegated municipalities' budgets assessed, Provincial Treasury determined that only 24 Tabled Budgets were Funded, 13 were Unfunded while it could not be determined whether the Tabled Budgets for the remaining 14 municipalities were Funded or Unfunded.

In a bid to improve the funding positions and overall presentation of the municipal budgets, Provincial Treasury continued to support the delegated municipalities throughout the 2017/18 Budget preparation process. The support included bilateral engagements with the municipalities.

I also corresponded with the Mayors of 13 municipalities as their 2017/18 Tabled Budgets were deemed Unfunded. The Mayors were requested to ensure that the 2017/18 Budgets to be approved by their Council in terms of Section 24(1) of the MFMA were Funded. The 14 municipalities whose budget funding position could not be determined, were also requested in the Provincial Treasury's comments letters to

ensure that the 2017/18 Budgets to be approved by their Council in terms of Section 24(1) of the MFMA were Funded.

Key findings on the 2017/18 Tabled Budgets Assessments

The findings on the 2017/18 Tabled Budgets were communicated through feedback letters to all delegated municipalities. Prior to communicating the feedback to municipalities, Provincial Treasury held bilateral meetings with 45 delegated municipalities to discuss the comments and recommendations on the findings relating to their 2017/18 Tabled MTREF Budgets. At these meetings, Provincial Treasury requested the municipalities to consider the comments and recommendations provided by Provincial Treasury in the budgets to be approved by Council. The bilateral meetings could not be held with the remaining 6 delegated municipalities due to amongst others, the non-availability of senior managers of the municipalities. The municipalities were also requested to table in Council for noting, Provincial Treasury's comments and responses by municipalities as part of the Approved 2017/18 Budget and related documents.

With regards to the funding position, the regression from the prior years (increase in unfunded budgets) is due to the in-depth analysis being undertaken on the cash flow position of the delegated municipalities by the Provincial Treasury as and when capacity is being built as opposed to merely reflecting a funded budget from the surplus reflected in Tables A7: *Budgeted Cash Flows* and A8: *Cash backed reserves/accumulated surplus reconciliation* by municipalities.

The following underlying points were key findings in respect of the assessments of the 2017/18 Tabled Budgets:

- **Compliance with Municipal Budget and Reporting Regulations and other legislation**

The quality of budgets submitted by delegated municipalities continues to improve year on year, especially the submissions which are on the latest version of the budget format. This is despite the fact that National Treasury issues on an annual basis a revised version of the budget format. As indicated earlier, all the delegated municipalities managed to submit their 2017/18 Tabled Budget using the latest Versions 2.8 and 6.1 of the Schedule A1.

Compliance checks reflected that many municipalities did not provide all the required budget information and did not submit all the required budget supporting documents such as the Budget related policies, the Draft Service Delivery and Budget Implementation Plan (SDBIP), the Draft Integrated Development Plan (IDP) and the Budget Assumptions, etc. The Budget Narrative reports for some of the municipalities were not comprehensive. Only 40 out of the 51 delegated municipalities submitted their draft SDBIP and corresponding non-compliance letters were sent to the 11 municipalities shown in Table 5.

Table 5: Municipalities that did not submit the draft SDBIP

No	Name of municipality	No	Name of municipality	No	Name of municipality
1	Ugu DM	5	uMvoti	9	Mthonjaneni
2	iNkosi Langalibalele	6	uMzinyathi DM	10	Mandeni
3	eNdameni	7	eMadiangeni	11	Maphumulo
4	Nquthu	8	Jozini		

Source: KZN Provincial Treasury

Table A10: *Basic service delivery measurement* was not completed or poorly completed by some of the 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 frequently refuse is being removed, etc. Some of the critical supporting tables which were not completed or poorly completed were Table SA7: *Measurable performance objectives*, Table SA34b: *Capital expenditure on the renewal of existing assets by asset class*, Table SA37: *Project delayed from previous financial year(s)*, Table SA35(e): *Capital expenditure on the upgrading of existing assets by asset class*, Table SA38: *Detailed operational projects* and Table SA24: *Summary of personnel numbers*.

• Credibility of budget figures

The budget tables in the A 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 Annual Financial Statement figures;
- The full year forecasts figures for 2016/17 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 B Schedule figures; and
- Differences were noted between the figures quoted in narrative report as well as the A1 Schedule.

Challenges were also experienced in some cases where municipalities did not provide the basis for their budget assumptions and/or no budget assumptions were supplied at all for certain line items, thus limiting the analysis.

• Sustainability of the municipality

Many municipalities' operating budgets continue to be funded mainly from grants. The Provincial Treasury has noted with concern that some municipalities had tabled a **budgeted operating deficit budget** for the 2017/18 MTREF cycle. This is despite the ongoing advice given to the municipalities through MFMA Circulars that municipalities should budget only for expenditure in line with revenue that will be realistically collected as per Section 18 of the MFMA.

Many municipalities still continue to provide water, sanitation and refuse removal services at a deficit despite the advice contained in MFMA Circulars that the tariff set by the municipalities should be cost reflective. It is also of great concern that some of

these municipalities did not indicate any plans in place aimed at rectifying the challenges of providing these services at deficits, thereby exposing the municipality to the risk of not being sustainable.

- **Funding of budgets**

Some municipalities still failed to adequately complete Tables A7: *Budgeted cash flow* and A8: *Cash backed reserves/accumulated surplus reconciliation* which are critical not only to reflect the cash flow status of the municipality but also to assist in determining the funding position of municipal budgets.

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 being carried over the MTREF. Furthermore, the majority of the municipalities neither accurately populated the full year forecast column in the budget, nor provided Provincial Treasury with the workings for the 2016/17 Closing cash and cash equivalents balance, as a result Provincial Treasury could not ascertain the reasonableness of the 2017/18 Opening cash and cash equivalents balance. The budgeted cash inflow in some cases was also based on collection rate assumptions which were not realistic and adequately justified. Also noted was that some municipalities significantly understated their cash outflows for *Suppliers and employees* in Table A7 when compared to the incorrect Trade and creditors balance as at the end of 2017/18 budget year reflected in Table SA3.

Table A8 was commonly characterised by incomplete information whereby, estimates on *Unspent conditional grants, Statutory requirements and Other provisions* were not reflected and the unrealistic *Working capital requirements* which resulted in an incorrect status of *Cash backed reserves/accumulated surplus reconciliation*.

Some municipalities have reflected *negative cash/cash equivalents at the year end and shortfall* positions over the entire MTREF period, thus raising liquidity concerns of whether the municipalities will be able to pay their debts as and when they fall due.

- **Operating revenue**

Regarding the operating revenue to be generated, some municipalities did not justify in their budget narratives all increases in excess of the 6.4 percent upper boundary of the South African Reserve Bank's inflation target as required by MFMA Circular No. 86.

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 the amendments resulting from the Municipal Property Rates Amendment Act No. 29 of 2014.

Some municipalities that provide services such as water and electricity did not off set the cost of Free Basic Services against budgeted revenue in Table SA1 as a result of incorrectly populating Table SA9 as required by MFMA Circular No. 85.

- **Operating expenditure**

With regards to the operating expenditure budget, most municipalities did not justify all their increases above the inflationary rate of 6.4 percent against various expenditure items as required by MFMA Circular No. 86.

Tables SA22, SA23 and SA24 relating to councillors and staff benefits, *Salaries and allowances* as well as personnel numbers for the municipality were either 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, 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.

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 contributes more than 10 percent towards *Other expenditure* for 2017/18. In terms of the MFMA Budget Format Guide, *General expenses* should not exceed 10 percent of the *Other expenditure* budget. Municipalities have been advised to review their allocation of expenditure to *General expenses* and reallocate the expenditure to appropriate expenditure items accordingly.

- **Capital Expenditure and Asset Management**

Some municipalities continue 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 of the municipalities still have a challenge in budgeting for at least 40 percent of the Capital expenditure budget for *Renewal of existing assets* as per National Treasury's guide. Furthermore, the budgets for *Repairs and maintenance* were in some cases unrealistic or questionable and the *Asset register summary – 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*.

Some municipalities did not indicate the budget allocations to sub-functions in Table A5 such as Executive and Council, Internal audit and Public safety, thereby raising the question of credibility.

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. With the poorly populated Tables A7 and A8, the ability to finance capital programmes from own funding in some cases could not be established.

For those municipalities intending to finance their capital programme through *Borrowings*, some did not submit sufficient supporting documents such as the loan amortisation schedules and as a result, Provincial Treasury could not determine the

reasonableness of their budgeted *Finance charges* and *Repayment of borrowings*.

- **Submission of Service level standards**

Most of the municipalities did not submit their Service level standards as required by MFMA Circular No. 78, despite the guideline issued to all municipalities on how to formulate Service level standards. Provincial Treasury will continue to monitor the municipalities to ensure that they put in place appropriate Service level standards.

High Level Assessment of the Approved 2017/18 Budgets

As per Section 24(1) of the MFMA, the municipal Council must at least 30 days before the start of the budget year consider approval of the annual budget, while Section 25(1) of the MFMA stipulates that if a municipal Council fails to approve an annual budget, including revenue-raising measures necessary to give effect to the budget, the Council must reconsider the budget and again vote on the budget, or on an amended version thereof, within seven days of the Council meeting that fails to approve the budget.

With exception of the eDumbe Municipality, all the delegated municipalities tabled their 2017/18 Budgets for consideration 30 days before the start of the budget year. A corresponding non-compliance letter was sent to the eDumbe Municipality in this respect. The Dr Nkosazana Dlamini Zuma, uMzinyathi District and Nquthu Municipalities considered their budget by 31 May 2017, however, they approved their budget on 06 June 2017, 21 June 2017 and 23 June 2017, respectively. The remaining budgets were approved as per Section 24(2) of the MFMA on the same day of tabling for consideration. The eDumbe Municipality considered and approved their 2017/18 Budget on 07 June 2017.

Provincial Treasury conducted a high level assessment of the 2017/18 Approved Budgets of the 51 KZN delegated municipalities with a view of establishing whether the comments and recommendations made by Provincial Treasury were considered in their 2017/18 Approved Budgets. Municipalities with Unfunded Budgets and whereby the funding position could not be determined were requested to re-table and approve a funded budget before the start of the financial year (by 30 June 2017).

Nkandla, eDumbe and Big Five Hlabisa Municipalities re-tabled their budgets before the start of the financial year as requested. With the assistance of Provincial Treasury, the Nkandla and Big Five Hlabisa Municipalities tabled and approved funded budgets before the start of the financial year. The remaining municipalities with unfunded budgets as well as the budgets whose funding position could not be determined were advised to adjust their budgets during the Adjustments Budget process, failing which, I intend reporting the errant municipalities to National Treasury to consider the stopping of their Equitable Share transfers in terms of Section 38 of the MFMA.

Summary of 2017/18 Budget Process

A summary of the outcome on the 2017/18 municipal budget assessment process and the funding position of the Approved Budgets is shown in Table 6:

Table 6: Summary of the outcomes on the 2017/18 Budget Assessment Process

	No of Budgets	Name of municipality
2017/18 Tabled Budgets		
Budget tabled late (after 31 March 2017)	2	eNdumeni and eDumbe
Budgets received (electronic and printed copies)	51	
Budgets assessed	51	
Budgets Tabled in correct formats	51	
Funded Budgets	24	
Unfunded Budgets	13	
Undetermined Funding Position	14	
2016/17 Approved Budgets		
Budget not considered for Approval by 31 May 2017	1	eDumbe
Budgets approved in correct formats	51	
Budgets received (electronic and printed copies)	51	
High level assessments conducted on Approved Budgets	51	
Funded Budgets	37	
Unfunded Budgets	13	
Undetermined Funding Position	1	

Source: KZN Provincial Treasury

Table 7 shows the funding positions of the 2017/18 Tabled and Adopted Budgets of all delegated municipalities. The table shows that initially there were only 24 Tabled Budgets which were Funded, 13 were Unfunded while the funding position for 14 municipalities could not be determined mainly due to incomplete information. However, through further engagement and support to municipalities by the KZN Provincial Treasury, the funding position of the Approved Budgets improved. Table 7 shows that 37 of the Approved Budgets were Funded, 13 were Unfunded while the funding position of only 1 municipality could not be determined.

Table 7: Funding Position of 2017/18 Tabled and Adopted Budgets as per Provincial Treasury's assessments

No.	Name of Municipality	2017/18 Tabled Budget	2017/18 Adopted Budget
1	Umdoni	Funded	Funded
2	Umzumbe	Funded	Funded
3	uMuziwabantu	Funded	Funded
4	Ray Nkonyeni	Undetermined	Funded
5	Ugu	Funded	Funded
6	uMshwathi	Funded	Funded
7	uMngeni	Funded	Funded
8	Mpofana	Unfunded	Unfunded
9	Impendle	Unfunded	Funded
10	Mkhambathini	Funded	Funded
11	Richmond	Funded	Funded
12	uMgungundlovu	Funded	Funded
13	Okhahlamba	Unfunded	Funded
14	Inkosi Langalibalele	Unfunded	Unfunded
15	Alfred Duma	Funded	Funded
16	Uthukela	Unfunded	Unfunded
17	Endumeni	Unfunded	Unfunded
18	Nquthu	Undetermined	Funded
19	Msinga	Undetermined	Undetermined
20	Umvoti	Unfunded	Unfunded
21	Umzinyathi	Unfunded	Funded
22	New castle	Funded	Unfunded
23	eMadlangeni	Funded	Funded
24	Dannhauser	Funded	Funded
25	Amajuba	Unfunded	Unfunded
26	eDumbe	Unfunded	Unfunded
27	uPhongolo	Undetermined	Funded
28	Abaqulusi	Undetermined	Funded
29	Nongoma	Undetermined	Funded
30	Ulundi	Unfunded	Unfunded
31	Zululand	Undetermined	Unfunded
32	Umhlabuyalingana	Undetermined	Funded
33	Jozini	Undetermined	Funded
34	Mtubatuba	Funded	Funded
35	The New Big 5 False Bay	Unfunded	Funded
36	Umkhanyakude	Unfunded	Unfunded
37	uMfolozi	Undetermined	Unfunded
38	uMlalazi	Funded	Funded
39	Mthonjaneni	Undetermined	Funded
40	Nkandla	Undetermined	Funded
41	King Cetshwayo	Funded	Funded
42	Mandeni	Funded	Funded
43	KwaDukuza	Funded	Funded
44	Ndwedwe	Funded	Funded
45	Maphumulo	Undetermined	Funded
46	iLembe	Funded	Funded
47	Greater Kokstad	Funded	Funded
48	Ubuhlebezwe	Funded	Funded
49	Umzimkhulu	Funded	Funded
50	Dr Nkosazana Dlamini Zuma	Funded	Funded
51	Harry Gwala	Unfunded	Unfunded

Source: KZN Provincial Treasury

3. RECOMMENDATIONS

- As funded budgets are one of the key “game changers”, for those municipalities which table an unfunded 2017/18 Adjustments Budget in February 2018, I will be recommending to National Treasury to consider stopping the equitable share transfers in terms of Section 38 of the MFMA, which states that *National Treasury may stop the transfer of funds due to a municipality as its share of the local government’s equitable share referred to in Section 214(1)(a) of the Constitution, but only if the municipality commits a serious or persistent breach of the measures established in terms of Section 216(1) of the Constitution which includes reporting obligations as set out in the MFMA and National Treasury’s request for information in terms of Section 74 of the MFMA.*
- As emphasised in budget processes of previous years, municipalities are encouraged to commence with their budget process timeously, by tabling their *Time schedule outlining key deadlines* for the following financial year’s IDP and Budget processes by 31 August, as per the requirements of the MFMA;
- Municipalities should strive to align their IDP and Budget processes as set-out in the *Time schedule outlining key deadlines*;
- The IDP’s and SDBIP’s should be timeously submitted together with Tabled Budgets for the comprehensive assessment of the budget by Provincial Treasury;
- Municipalities should also commence earlier with regard to the preparation of the budget tables and supporting documents. This will allow for the timeous resolution of any problems that might be experienced by municipalities with the preparation of the budget;
- Municipalities should strive to improve their budget narration relating to explanations, assumptions and projections of their budgets. This can be achieved by using the Dummy Budget Guide issued by National Treasury;
- Municipalities are encouraged to invite Provincial Treasury to attend their Finance or Budget Steering Committee meetings during the budget preparation process;
- All municipalities are recommended to keep and maintain a Budget Working Paper file, in order to support the budget estimates and assumptions contained in their budgets. The guide in this regard was included in Provincial Treasury Circular (PT/MF 07 of 2016/17 dated 24 February 2017) submitted to all delegated municipalities;
- Municipal information systems should be linked to the prescribed budget and reporting templates to ensure correct application of approved tariffs, control of budget implementation as well as population of the correct In-Year-Monitoring reports and be mSCOA compliant;
- Provincial Treasury will continue to engage with all delegated municipalities on the budget preparation process and request progress reports; and

- Provincial Treasury will continue to provide ongoing technical support to the delegated municipalities regarding the completion of the budget tables. The support will also include the correct application of accounting concepts as it was evident that there was a lack of understanding on the application of accounting concepts such as: Provision for Depreciation and Asset Impairment; Debt Impairment; Cash Flow Budgeting and Asset Management.

Yours sincerely



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