



OFFICE OF THE MEC FOR FINANCE

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

PROVINCIAL TREASURY CIRCULAR PT/MF 03 OF 2019/20

FINDINGS ON THE 2019/20 MUNICIPAL BUDGET ASSESSMENT/EVALUATION

Provincial Treasury assessed the 2019/20 Tabled Budgets of all 51 delegated municipalities as required by Section 22 of the Municipal Finance Management Act, Act No. 56 of 2003 (MFMA) read in conjunction with Section 23(1)(b) 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*. Provincial Treasury further conducted high level assessments on the 2019/20 Approved Budgets of all 51 delegated municipalities.

1. PURPOSE

The purpose of this circular is to:

- Share with all KwaZulu-Natal Mayors the findings of the Tabled Budget assessment/evaluation process and the Approved Budget high level assessments for the delegated municipalities in the province; and
- Highlight some of the key non-compliance areas, areas of weakness and common mistakes which municipalities should consider and address (where applicable) when preparing their 2019/20 Adjustments Budgets and the 2020/21 MTREF Budgets.

2. BACKGROUND AND DISCUSSION

Tabling of the 2019/20 Time schedules outlining key deadlines for the budget process

Section 21(1)(b) of the 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. The main objectives of this section are to ensure that the budget preparation process commences timeously and complies with all legislative requirements.

In this regard, 46 of the 51 delegated municipalities timeously tabled their *Time schedule outlining key deadlines* in Council by 31 August 2018 as per the requirements of the MFMA. Table 1 lists the municipalities which did not table their *Time schedule outlining key deadlines* by the prescribed deadline of 31 August 2018. The eNdameni Local Municipality applied for an extension before 31

August 2018 and thus was not issued with a non-compliance letter. The Dannhauser Local Municipality did not respond to various requests from Provincial Treasury requesting confirmation that the Mayor had tabled their 2019/20 *Time schedule outlining key deadlines*. The Mayor was notified of the non-compliance as part of the high level review of the 2019/20 *Time schedule outlining key deadlines* letter sent to the municipality. The eMadlangeni and Dr. Nkosazana Dlamini Zuma Local Municipalities as well as the Zululand District Municipality were all issued with non-compliance letters in this regard.

Five municipalities as shown in Table 1 did not table their *Time schedule outlining key deadlines* by 31 August 2018.

Table 1: Municipalities which tabled their 2019/20 Time schedules outlining key deadlines after 31 August 2018

No	Name of municipality	No	Name of municipality
1	eMadlangeni	4	Zululand DM
2	Dannhauser	5	Dr. Nkosazana Dlamini Zuma
3	eNdumeni		

Source: KZN Provincial Treasury

All five Mayors of the municipalities shown in Table 1 above subsequently tabled their *Time schedule outlining key deadlines* in Council.

Provincial Treasury conducted a high level review on the *Time schedule outlining key deadlines* of the 51 delegated municipalities. Compliance and credibility issues were identified in the *Time schedule outlining key deadlines* of 35 municipalities as listed in Table 2 below. The issues identified were communicated to the municipalities in writing, with the common issues being:

- Municipalities did not include the bilateral engagements between Provincial Treasury and municipalities in January – March 2019 and/or in April – May 2019;
- No indication was received by Provincial Treasury from some municipalities regarding the timelines for the annual review of budget related policies including rates and tariffs; and
- The consultative process for some municipalities did not include public participation in respect of the budget related policies, the annual budget and the Integrated Development Plan (IDP).

Table 2: Municipalities where gaps were identified in their 2019/20 Time schedules outlining key deadlines

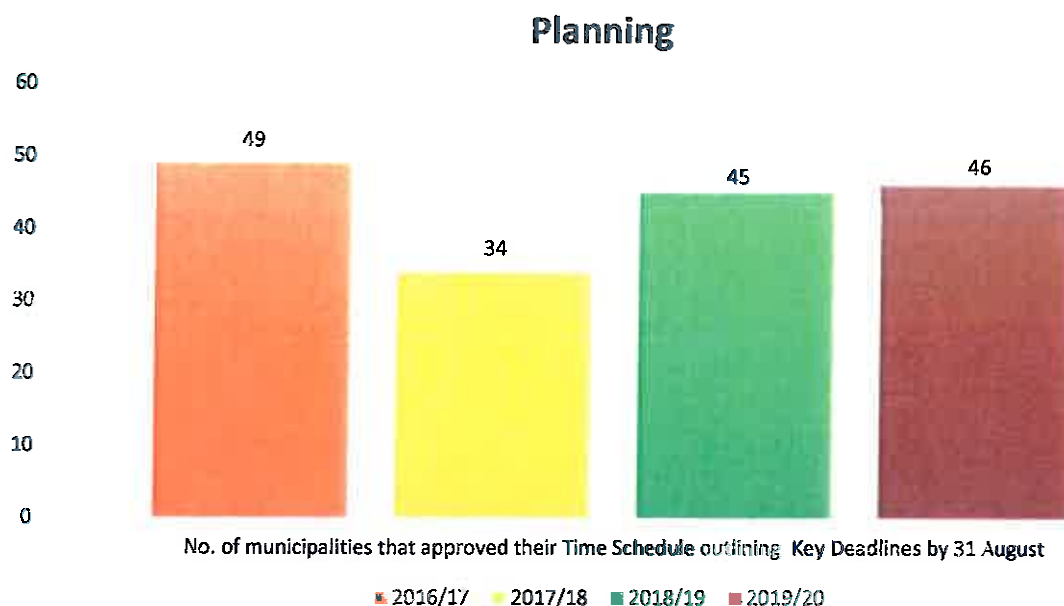
No	Name of municipality	No	Name of municipality	No	Name of municipality
1	uMdoni	13	eNdumeni	25	Ulundi
2	uMuzwabantu	14	Nquthu	26	Zululand DM
3	Ray Nkonyeni	15	uMsinga	27	uMfolozi
4	Ugu DM	16	uMvoti	28	uMlalazi
5	uMshwathi	17	uMzinyathi DM	29	Nkandla
6	uMngeni	18	Newcastle	30	King Cetshwayo DM
7	Mpofana	19	eMadlangeni	31	Ndwedwe
8	iMpendle	20	Dannhauser	32	Greater Kokstad
9	Mkhambathini	21	Amajuba DM	33	uBuhlebezwe
10	uMgungundlovu DM	22	eDumbe	34	Dr. Nkosazana Dlamini Zuma
11	iNkosi Langalibalele	23	uPhongolo	35	Harry Gwala DM
12	uThukela DM	24	AbaQulusi		

Source: KZN Provincial Treasury

There has been an increase in the number of municipalities from 45 in 2018/19 to 46 in 2019/20 that tabled their *Time schedules outlining key deadlines* within the prescribed date of 31 August as per Section 21(1)(b) of the MFMA as illustrated in Figure 1. This is encouraging as better planning will lead to improved compliance and possibly, more credible budgets.

Figure 1 illustrates the number of municipalities that approved their *Time schedules outlining key deadlines* by 31 August over 2016/17 to 2019/20.

Figure 1: Planning for the Budget Process



Source: KZN Provincial Treasury

Provincial Treasury's support to municipalities on the 2019/20 Municipal Budget 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 are licensed to supply electricity are expected to submit their applications for an electricity tariff increase in line with Section 43 of the MFMA to the National Energy Regulator of South Africa (NERSA). To ensure an improvement in the quality and timeliness of the tariff applications by municipalities, NERSA, jointly with Provincial Treasury, conducted workshops on 10 October 2018 in Richards Bay and on 12 October 2018 in Durban. The purpose of the workshops was mainly to highlight the correct process for the completion and submission of the relevant application forms to NERSA and to remind municipalities of the deadlines for the various processes. The workshops were conducted for all delegated and non-delegated municipalities in the province which are licenced to provide electricity services and were attended by 65 municipal officials from 25 municipalities.

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

- The correct Version 6.3 of the prescribed Schedule A1 was used in the preparation of their 2019/20 Medium Term Revenue & Expenditure Framework (MTREF) Budget;
- The mSCOA data strings were extracted directly from the system and reconciled to the Council Approved Budget;
- The 2019/20 MTREF Budgets incorporated the requirements of the latest budget circulars, namely, MFMA Circulars No. 93 and 94; and

On-site technical support for the preparation of the 2019/20 Budget was provided to the six municipalities shown in Table 3 at their request:

Table 3: On-site technical support to municipalities on the 2019/20 budget preparation process

No	Name of municipality	No	Name of municipality
1	uMdoni	4	iMpendle
2	uMzambe	5	uMgungundlovu DM
3	Ugu DM	6	iNkosi Langalibalele

Source: KZN Provincial Treasury

To further guide all 51 delegated municipalities with the preparation of their 2019/20 budgets and to monitor compliance with the Municipal Budget and Reporting Regulations (MBRR), Provincial Treasury issued Circular PT/MF 10 of 2018/19 dated 12 March 2019 (Preparation, submission and publication of the 2019/20 MTREF budget) to the municipalities. The circular covered the following areas relating to the Budget preparation process:

- Preparation of the 2019/20 MTREF Municipal Budgets;
- Format Requirements for the 2019/20 MTREF Municipal Budgets;
- Funding Position of the 2019/20 MTREF Municipal Budgets;
- Technical Assistance on the 2019/20 MTREF Tabled Budgets;
- Engagement with municipalities on the 2019/20 MTREF Tabled Budgets;
- Submission of the 2019/20 MTREF Municipal Budgets;
- Publication of the 2019/20 MTREF Municipal Budgets;
- 2019/20 MTREF Municipal Budget Verification Process;
- Budget Steering Committee (BSC);
- Service Delivery and Budget Implementation Plans (SDBIPs);
- National and Provincial Transfers to municipalities;
- Further matters for consideration in the 2019/20 MTREF Municipal Budget Process; and
- Municipal Budget Submission Process.

The Provincial Treasury 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 2019/20 MTREF budgets.

The status of Budget Steering Committees (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 majority of municipalities have indicated that they have an established BSC in place however, it is important that the composition of the BSC is in compliance with Regulation 4 of the MBRR and that the committee fully executes the required functions thereof in order to make a meaningful impact at the municipality. All municipalities were requested to invite Provincial Treasury to their BSC meetings.

Table 4 lists the municipalities who invited Provincial Treasury to their BSC meetings as well as the applicable meeting dates.

Table 4: Municipalities who invited Provincial Treasury to their BSC meetings

No	Name of municipality	Date of BSC meeting
1	Nquthu	12-Feb-19
2	uMvoti	22-Mar-19

Source: KZN Provincial Treasury

Guidance on important factors for members of the BSC to consider during the review of the 2019/20 Tabled Budget process was offered by Provincial Treasury during the BSC meetings.

Municipal Standard Chart of Accounts (mSCOA)

MFMA Circular No. 93 indicated in paragraph 6.1 that Version 6.3 of the mSCOA classification framework is effective from the 2019/20 financial year and must be used to compile the 2019/20 MTREF Budget. The circular further required all municipalities to prepare their 2019/20 MTREF Budgets on their financial systems and that the Schedule A1 be produced directly from their financial system. Based on this premise, all municipalities should have been able to timeously upload accurate mSCOA data strings to the National Treasury portal (portal) as the Schedule A1 and the data strings would both be produced from the same financial system.

Paragraph 7.4 of MFMA Circular No. 94 indicated that municipalities must upload the mSCOA data strings for the tabled (TABB) and adopted (ORGB) budget to the upload portal accompanied by the IDP project details data strings (PRTA and PROR). The deadlines for the submission of the mSCOA data strings were set at the same dates as the deadlines for the submission of the tabled and approved budget documents.

Provincial Treasury compared the data strings uploaded for the 2019/20 Tabled Budgets to the Schedule A1 tabled in Council and found a significant number of differences for all 51 delegated municipalities. This was a key indicator that municipalities may not have produced their Schedule A1 directly from their financial systems as required by MFMA Circular No. 94. The differences were communicated to all municipalities to make the necessary corrections.

Section 24(3) of the MFMA read together with Regulation 20(1) of the MBRR and paragraph 7.4 of MFMA Circular No. 94 requires that the mSCOA data strings for the Approved Budgets must be submitted to National Treasury and the relevant Provincial Treasury within ten working days after the Council has approved the annual budget. As at 22 August 2019, the uPhongolo Local Municipality still had not submitted their data strings, despite having approved their budget on 27 May 2019. Furthermore, the iNkosi Langalibalele, uMvoti and eNdumeni Local Municipalities while having submitted their mSCOA data strings, did not do so within ten working days of approving their budgets and were issued with non-compliance letters in this regard. As at 22 August 2019, the iNkosi Langalibalele Local Municipality still reflected segment errors for the ORGB mSCOA data strings submitted. Furthermore, the Nquthu Local Municipality and uThukela District Municipality reflected segment errors for PROR data strings as at 22 August 2019.

2019/20 Tabled Budget Assessment Process

Tabling of the 2019/20 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.*

Fifty (50) of the 51 delegated municipalities tabled their 2019/20 Draft Budget within the legislated deadlines. The Mandeni Local Municipality is the only municipality in the province which did not table its 2019/20 Draft Budget at least 90 days before the start of the budget year and was issued with a non-compliance letter by the MEC for Finance in this regard. The municipality indicated that a service protest prevented them from tabling the Draft Budget on 29 March 2019. Their municipality subsequently tabled its 2019/20 Draft Budget on 04 April 2019.

Submission of the 2019/20 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 formats. As per MFMA Circular No. 94, the date for the submission of the electronic copies was 03 April 2019 and 05 April 2019 for the printed copies for a municipality that tabled the budget on 29 March 2019.

Table 5 lists the 19 municipalities that did not submit one or more of the following required documents within the legislative requirements:

1. Electronic copy of the 2019/20 Tabled Budget;
2. Printed copy of the 2019/20 Tabled Budget;
3. Draft Service Delivery and Budget Implementation Plan (SDBIP); and
4. mSCOA data strings (TABB).

Non-compliance letters were issued to 18 of the 19 municipalities in this regard as shown in Table 5 below. The KwaDukuza Local Municipality experienced an abnormal intrusion of their IT network which resulted in a complete server shutdown. The municipality was unable to submit their TABB mSCOA data strings timeously and communicated their challenges to National Treasury before the submission deadline of 03 April 2019.

Table 5: Municipalities that did not submit electronic or printed copies of their 2019/20 Tabled Budgets timeously

No	Municipalities that did not submit electronic copies timely	No	Municipalities that did not submit printed copies timely	No	Municipalities that did not submit Draft SDBIP timely	No	Municipalities that did not submit mSCOA data strings (TABB) timely
1	Ugu DM	1	Amajuba DM	1	Ugu DM	1	uThukela DM
2	Nquthu	2	Nquthu	2	uMgungundlovu DM	2	Amajuba DM
				3	Amajuba DM	3	eNdumeni
				4	Zululand DM	4	Newcastle
				5	Harry Gwala DM	5	iNkosi Langalibalele
				6	uMdoni	6	KwaDukuza
				7	uMzembe		
				8	uMshwathi		
				9	Mpofana		
				10	iMpendle		
				11	Mkhambathini		
				12	eNdumeni		
				13	Nquthu		
				14	Dannhauser		
				15	Ulundi		

Source: KZN Provincial Treasury

Outcomes of the 2019/20 Tabled Budgets Assessments/Evaluations

Upon the receipt of the tabled 2019/20 Budgets, Provincial Treasury undertook an assessment of the Tabled Budgets 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 Council 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 6.3 of the Schedule A1;

- The information provided in the main budget Tables (A1 to A10) and supporting Tables (SA1-SA38) reconciled to the budget documents and schedules submitted to the National Treasury portal; and
- The information is sufficient to enable the assessments of the Tabled Budgets.

Provincial Treasury established that only the uMgungundlovu District Municipality in the province failed to submit the 2019/20 Tabled Budget in the correct format of Version 6.3 of the Schedule A1. The remaining 50 out of the 51 delegated municipalities submitted their 2019/20 Tabled Budgets in the correct format of Version 6.3 of the Schedule A1 and the Tabled Budgets provided a reasonable basis for the assessments and comments.

Of the 51 delegated municipalities' budgets assessed, Provincial Treasury determined that only 27 Tabled Budgets were funded, 20 were unfunded while the funding position for the remaining 4 municipalities could not be established.

Bi-lateral engagements

In a bid to improve the funding position and the overall presentation of the municipal budgets, Provincial Treasury continued to support the delegated municipalities throughout the 2019/20 Budget preparation process. The support included bilateral engagements with the municipalities during which detailed guidance was provided on the causes of the unfunded budgets and actions that could be taken to improve the funding position of the municipalities' budgets.

The findings on the 2019/20 Tabled Budgets were communicated through formal feedback letters to all delegated municipalities. Prior to communicating the feedback to municipalities, Provincial Treasury held bilateral meetings with 50 delegated municipalities to discuss the comments and recommendations on the findings relating to their 2019/20 Tabled Budgets. At these meetings, Provincial Treasury requested the municipalities to consider the comments and recommendations provided by Provincial Treasury during the preparation of the final budgets to be approved by Council. The bilateral meeting could not be held with the uMshwathi Local Municipality as a result of the non-availability of senior managers of the municipality. The municipalities were also requested to table in Council for noting, Provincial Treasury's comments and responses by municipalities as part of the 2019/20 Approved Budget and related documents.

Key findings on the 2019/20 Tabled Budgets Assessments

The following were the key findings emanating from Provincial Treasury's assessment of the 2019/20 Tabled Budgets:

◦ Compliance with MBRR and other legislations

As indicated earlier, 50 of the 51 delegated municipalities managed to submit their 2019/20 Tabled Budgets using the latest Version 6.3 of the Schedule A1. The uMgungundlovu District municipality failed to submit their 2019/20 Tabled Budget in the latest version 6.3 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 SDBIP, the draft IDP and the budget assumptions, etc. The budget narrative reports for some of the municipalities were of a poor quality, were not comprehensive and in some cases, contradicted information contained in the Schedule A1. Provincial Treasury also found that some municipalities did not submit key calculations supporting significant budget line items. Fifteen (15) out of the 51 delegated municipalities did not submit their draft SDBIPs timeously as shown in Table 6 and were thus issued with non-compliance letters.

Table 6: Municipalities that did not submit the draft SDBIP

No	Name of municipality	No	Name of municipality	No	Name of municipality
1	uMdoni	6	iMpindle	11	Dannhauser
2	uMzambe	7	Mkhambathini	12	Amajuba DM
3	Ugu DM	8	uMgungundlovu	13	Ulundi
4	uMshwathi	9	eNdumeni	14	Zululand DM
5	Mpofana	10	Nquthu	15	Harry Gwala DM

Source: KZN Provincial Treasury

Table A10: *Basic service delivery measurement* was not completed or poorly completed by most municipalities. Table A10 is critical for reflecting amongst others, information on the number of households within a municipal area, a measurement of the number of households receiving basic services at the minimum service level, the number of households receiving Free basic services, 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. Due to the poor quality of information in Table A10, Provincial Treasury was not able to, in many cases, determine the accuracy of budget for the *Cost of Free basic services* and whether municipalities are effectively delivering basic services to their indigent customers.

Other critical supporting tables which were not completed or poorly completed were Table SA7: *Measurable performance objectives*, Table SA9: *Social, economic and demographic statistics and assumptions*, Table SA24: *Summary of personnel numbers*, Table SA34b: *Capital expenditure on the renewal of existing assets by asset class*, Table SA34e: *Capital expenditure on the upgrading of existing assets by asset class*, Table SA37: *Project delayed from previous financial year/s* and Table SA38: *Consolidated detailed operational projects*.

• Credibility of budget figures

The budget tables in Schedule A1 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 (AFS) figures;
- The full year forecast figures for 2018/19 were merely replicated as the Adjusted Budget figures and were not in line with the performance trends;
- The 2018/19 Adjusted Budget figures did not reconcile to the approved Schedule B figures; and
- Differences were noted between the figures quoted in the narrative report and Schedule A1.

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 by Provincial Treasury.

• Sustainability of the municipality

Many municipalities' operating budgets continue to be funded mainly from grants. Provincial Treasury has noted with concern that some municipalities have **budgeted for Operating deficits** for the 2019/20 MTREF. These municipalities were alerted to the fact that continued Operating deficits may result in the erosion of municipal cash reserves leading to possible future unfunded budgets.

Many municipalities still continue to provide water, sanitation and refuse removal services at a deficit, despite the advice contained in the MFMA Circulars that tariffs set by municipalities should be cost reflective. It is also of great concern that some of these municipalities did not indicate any plans aimed at rectifying the challenges that have resulted in providing these services at deficits, thereby exposing the municipality to the risk of not being sustainable.

- **Funding of budgets**

Despite the ongoing advice given to the municipalities through the MFMA Circulars that municipalities should prepare funded budgets as per Section 18 of the MFMA, many municipalities still tabled unfunded budgets.

Some municipalities still failed to adequately complete Table A7: *Budgeted cash flows* and Table 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 municipalities neither accurately populated the Full Year Forecast column in the budget, nor provided Provincial Treasury with their workings for the 2018/19 Closing *Cash and cash equivalents* balance and as a result, Provincial Treasury could not ascertain the reasonableness of the 2019/20 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.

Provincial Treasury recalculated an estimate for *Other working capital requirements* in Table A8 based on the *Receivables* and *Payables* in the audited AFS as well as the Adjusted Budget for the current year (2018/19) and the budget assumptions for revenue and expenditure in the budget year (2019/20). This process highlighted that some municipalities significantly understated their cash outflows for *Suppliers and employees* in Table A7 and/or their *Trade and other creditors* balance as at the end of 2019/20 budget year in Table SA3: *Supporting detail to 'Budgeted Financial Position'*. Similarly, municipalities overstated their cash inflows for the various operating revenue line items in Table A7 and/or their *Other debtors* and *Long term receivables* as per Table A6 and *Consumer debtors* balances as at the end of 2019/20 budget year in Table SA3.

Table A8 was commonly characterised by incomplete information which did not correlate with information contained in the audited AFS whereby estimates on *Unspent conditional transfers*, *Statutory requirements* and *Other provisions* were not reflected which together with the unrealistic *Other working capital requirements*, resulted in an incorrect status of *Surplus/(shortfall)*.

Some municipalities have reflected negative *Cash/cash equivalents at the year end* and *Shortfall* positions over the entire MTREF period thus, raising concerns over their liquidity and whether or not the municipalities would be able to pay their debts as and when they fall due.

- **Operating revenue**

Regarding the Operating revenue budget, some municipalities did not justify, in their budget narratives, all increases to their tariffs in excess of the projected Consumer Price Index (CPI) for the 2019/20 financial year of 5.2 percent as specified in MFMA Circular No. 94.

Most municipalities did not disclose the rateable properties, market values as well as valuation reductions and any other rating criteria in Tables SA11: *Property rates summary*, SA12b: *Property rates by category* which limited the analysis of the reasonableness of the budgets for *Property rates* revenue by Provincial Treasury. Due to the non-submission of Property rates policies and/or calculations to support the budgets by some municipalities, Provincial Treasury could not determine whether these municipalities have incorporated the amendments resulting from the Municipal Property Rates Amendment Act (Act No. 29 of 2014).

Some municipalities that provide services such as water and electricity did not budget for the *Cost of free basic services* against the relevant revenue items in Table SA1: *Supporting detail to 'Budgeted Financial Performance'* as a result of incorrectly populating Table SA9: *Social, economic and demographic statistics and assumptions*. Some municipalities also do not appear to have considered the

basic services component of the Equitable share allocation for use in free basic service support for residents within the municipality's jurisdiction and rather budgeted to utilise the majority of the Equitable share allocation for municipal expenses.

- **Operating expenditure**

With regards to the Operating expenditure budget, most municipalities did not justify all their increases above the projected CPI of 5.2 percent against various expenditure items as required by MFMA Circular No. 94.

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 provided in MFMA Circular No. 71 for the ratio of *Remuneration (Employee related costs and Remuneration of councillors)* to *Total operating expenditure* to be between 25 and 40 percent, the ratio was found to be excessive in many municipalities.

Some municipalities under-budgeted for *Debt impairment* and *Depreciation and asset impairment*. While both these are non-cash expenses, the municipalities could still incur unauthorised expenditure at the end of the financial year due to under-budgeting. Significant under-budgeting also results in municipalities projecting unrealistic Operating surpluses.

Other expenditure, in particular, was of concern as the increases were excessive in some cases. Furthermore, undefined projects and non-priority items could be included in *General expenses* resulting in significantly high budget amounts for *Other expenditure*. Some municipalities also did not detail *Other expenditure* sufficiently in Table SA1: *Supporting detail to 'Budgeted Financial Performance'*.

For most municipalities, *General expenses*, as detailed in Table SA1 contributed more than 10 percent towards *Other expenditure* in 2019/20. In terms of the MFMA Budget Format Guide, *General expenses* should not exceed 10 percent of the *Other expenditure* budget. Some municipalities reflected *General expenses* which were 100 percent of *Other expenditure* which made it impossible for Provincial Treasury to assess whether the municipalities concerned applied the guidance provided in MFMA Circulars No. 58, 66 and other subsequent MFMA Circulars which encouraged reducing non-priority expenditure. Municipalities were advised to review their allocation of expenditure to *General expenses* and reallocate the expenditure to the appropriate expenditure items accordingly. The mSCOA classification framework does not allow municipalities to budget for *General expenses* therefore it is concerning to note a number of municipalities still reflected this line item in Table SA1 and would appear to have manually inserted the *General expenses* figures in order to reflect it in the Schedule A1. National Treasury is in a continuous process of refining the definitions of *Other materials*, *Other expenditure* and *Contracted services* which is partly affected by the feedback obtained from municipalities and would therefore inform how municipalities should budget for expenditure in relation to the mSCOA classification framework in the future.

Municipalities did not increase tariffs according to NERSA guidelines and as a result, had to adjust their tariffs in the 2019/20 Approved Budget.

- **Capital expenditure and Asset management**

Some municipalities continue to submit incomplete Budget Tables relating to their Capital budget, including Table SA36: *Detailed capital budget* and Table SA37: *Project delayed from previous financial year/s*. Most of the municipalities still have a challenge in budgeting for at least 40 percent of the Capital expenditure budget for the *Renewal of existing assets* as per MFMA Circular No. 55. Furthermore, the budgets for *Repairs and maintenance* were in some cases unrealistic or questionable and the *Asset register summary – PPE (WDV)* values in Table A9: *Asset Management* 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 concerns over the credibility of their budgets.

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 sufficient cash backed accumulated funds from previous financial years. With the poorly populated Tables A7 and A8, the municipalities' ability to finance capital programmes from internal funding, in some cases, could not be established.

In instances where municipalities intended to finance their capital programme through *Borrowings*, some municipalities did not submit sufficient supporting documents such as the projected workings and as a result, Provincial Treasury could not assess the reasonableness of their budgeted *Finance charges and Repayment of borrowings*.

• Submission of Service level standards

Most municipalities did not submit their Service level standards as required by MFMA Circular No. 78, despite the guideline being issued to 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.

Municipal responses to Provincial Treasury findings on the 2019/20 Tabled 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, in particular to respond to the submissions made by Provincial Treasury, 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 with Regulation 20 of the MBRR. In this regard, only 12 municipalities shown in Table 7 provided responses to Provincial Treasury.

Table 7: Municipalities that provided formal responses to Provincial Treasury's comments

No	Name of municipality	No	Name of municipality	No	Name of municipality
1	uMshwathi	5	uMfolozi	9	KwaDukuza
2	Okhahlamba	6	Nkandla	10	Ndwedwe
3	Alfred Duma	7	King Cetshwayo DM	11	Greater Kokstad
4	Amajuba DM	8	Mandeni	12	uMzimkhulu

Source: KZN Provincial Treasury

Summary of the 2019/20 Tabled Budget Assessment Process

A trend analysis of milestones for the Tabled Budget process over the four year period from 2016/17 to 2019/20 as per Table 8 shows significant improvement in the tabling of the *Time Schedule outlining key deadlines* which assists municipalities to fully comply with all legislative requirements for the budget process. While 18 municipalities submitted their budgets late to Provincial Treasury, all delegated municipalities submitted their budgets enabling Provincial Treasury to assess the budgets of all delegated municipalities.

Despite regular reminders, seven (7) municipalities still failed to upload their budget documentation to their municipal websites timeously. This is of great concern to Provincial Treasury as this step in the process is integral to the municipalities' transparent communication with its communities. Some municipalities have indicated that the non-compliance was due to non-functioning websites. Municipalities were thus reminded of the importance of Section 75 of the MFMA and an adequately functioning website in order to fully comply with this legislative requirements.

The quality of the 2019/20 Tabled Budgets submitted by delegated municipalities improved from previous years, enabling Provincial Treasury to decrease the number of budgets where the funding position could not be determined from 12 for the 2018/19 Tabled Budgets submitted to 4 for the 2019/20 Tabled Budgets submitted. Municipalities were also reminded to improve the quality of their Tabled Budgets in order for Provincial Treasury to provide more detailed feedback on improving their budgeted funding positions in PT/MF 10 of 2018/19 dated 12 March 2019.

Table 8: Trend analysis of milestones for the Tabled Budget process

No	Item	2016/17 Process	2017/18 Process	2018/19 Process	2019/20 Process	Year on year movement
Budget Timelines						
1	Time Schedules outlining key deadlines NOT tabled by 31 August	9 (16%)	17 (33%)	6 (12%)	5 (10%)	
2	Time Schedules outlining key deadlines NOT tabled	0 (0%)	1 (2%)	0 (0%)	0 (0%)	
Tabled (Draft) Budget						
3	Technical support provided to munis. by PT on the budget preparation process	1 (2%)	2 (4%)	5 (10%)	8 (16%)	
4	Nos. of munis. that did NOT submit their Tabled Budget to PT by the due date as per MFMA Budget circ.	4 (7%)	1 (2%)	4 (8%)	18 (35%)	
5	Nos. of munis. that did NOT place their Budget on the municipal website within 5 working days of tabling	4 (7%)	6 (12%)	7 (14%)	7 (14%)	
6	Nos. of munis. that did NOT provide a consolidated budget (where applicable)	0 (0%)	0 (0%)	0 (0%)	1 (2%)	
7	Nos. of munis. whose Tabled budgets were NOT in the correct format/version applicable	0 (0%)	0 (0%)	0 (0%)	1 (2%)	
8	Nos. of munis. with Funded Tabled budgets	25 (43%)	24 (47%)	23 (45%)	27 (53%)	
9	Nos. of munis. with Unfunded Tabled budgets	16 (28%)	13 (25%)	16 (31%)	20 (39%)	
10	Nos. of munis. where funding positions of the Tabled budget could not be determined	17 (29%)	14 (27%)	12 (24%)	4 (8%)	
11	Nos. of munis. that were engaged by PT on the Tabled budget	50 (86%)	45 (88%)	45 (88%)	50 (98%)	
12	Nos. of Feedback letters* sent (PT findings on Tabled budget)	58 (100%)	51 (100%)	51 (100%)	51 (100%)	
SDBIP						
13	Nos. of Draft SDBIPs NOT submitted to PT	21 (36%)	11 (22%)	10 (20%)	6 (12%)	

* Nos. of delegated munis. in KZN decreased from 58 to 51 after the August 2016 Local Government election

Key



Year on year improvement noted or No improvement possible



No change noted year on year



Year on year regression noted

Source: KZN Provincial Treasury

2019/20 Approved Budget Assessment Process

Approval and submission of the 2019/20 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 the exception of three municipalities, namely; the Mpofana, AbaQulusi and eDumbe Local Municipalities, all the delegated municipalities tabled their 2019/20 MTREF Budgets for consideration at least 30 days before the start of the budget year. The Mpofana Local Municipality requested an extension for the consideration and approval of their 2019/20 Budget. The AbaQulusi and eDumbe Local Municipalities were issued with non-compliance letters as the two municipalities did not table their 2019/20 MTREF Budget for consideration at least 30 days before the start of the budget year. The AbaQulusi Local Municipality approved their 2019/20 Budget on 03 June 2019 and the eDumbe Local Municipality approved their 2019/20 Budget on 27 June 2019.

Section 24(3) of the MFMA read together with Regulation 20 of the MBRR requires the Accounting Officer to submit the electronic and printed copies of the Approved Budget to National Treasury and Provincial Treasury within 10 working days after tabling in Council. Five non-compliance letters were issued to the municipalities that did not submit the electronic and/or printed copies of their budgets within the prescribed time as shown in Table 9 below.

Table 9: Municipalities that did not submit electronic or printed copies of their 2019/20 Approved Budgets timely

No	Municipalities that did not submit printed copies timeously	No	Municipalities that did not submit mSCOA data strings (PRTA) timeously	No	Municipalities that did not submit mSCOA data strings (ORGB) timeously
1	Amajuba DM	1	uPhongolo	1	uPhongolo
		2	uMvoti	2	iNkosi Langalibalele
		3	eNdumeni		

Source: KZN Provincial Treasury

Outcomes of the High Level Assessment of the Approved 2019/20 Budgets

Provincial Treasury conducted a high level assessment of the 2019/20 Approved Budgets of all 51 delegated municipalities with a view of establishing whether the comments and recommendations made by Provincial Treasury were considered in their 2019/20 Approved Budgets. Municipalities shown in Table 10 were reminded to table funded 2019/20 Adjustments Budgets in terms of Section 28 of the MFMA, failing which, the MEC for Finance in the province will report the errant municipalities to National Treasury to consider the stopping of their Equitable share transfers in terms of Section 38 of the MFMA. Municipalities with unfunded budgeted were also requested to table a plan in Council indicating how and by when their budgets will be funded as required by MFMA Circular No. 89.

Table 10: Municipalities with unfunded 2019/20 Approved Budgets

No	Name of municipality	No	Name of municipality	No	Name of municipality
1	Ugu DM	7	Newcastle	13	Zukuland DM
2	Mpotana	8	Amajuba DM	14	uMkhanyakude DM
3	iMpindle	9	eDumbe	15	Mthonjaneni
4	uMgungundlovu DM	10	uPhongolo	16	Harry Gwala DM
5	iNkosi Langalibalele	11	AbaQulusi		
6	uThukela DM	12	Ulundi		

Source: KZN Provincial Treasury

Key findings on the high level assessments of the 2019/20 Approved Budgets

The following key findings are based on the Approved Budget assessments conducted on the 51 delegated municipalities:

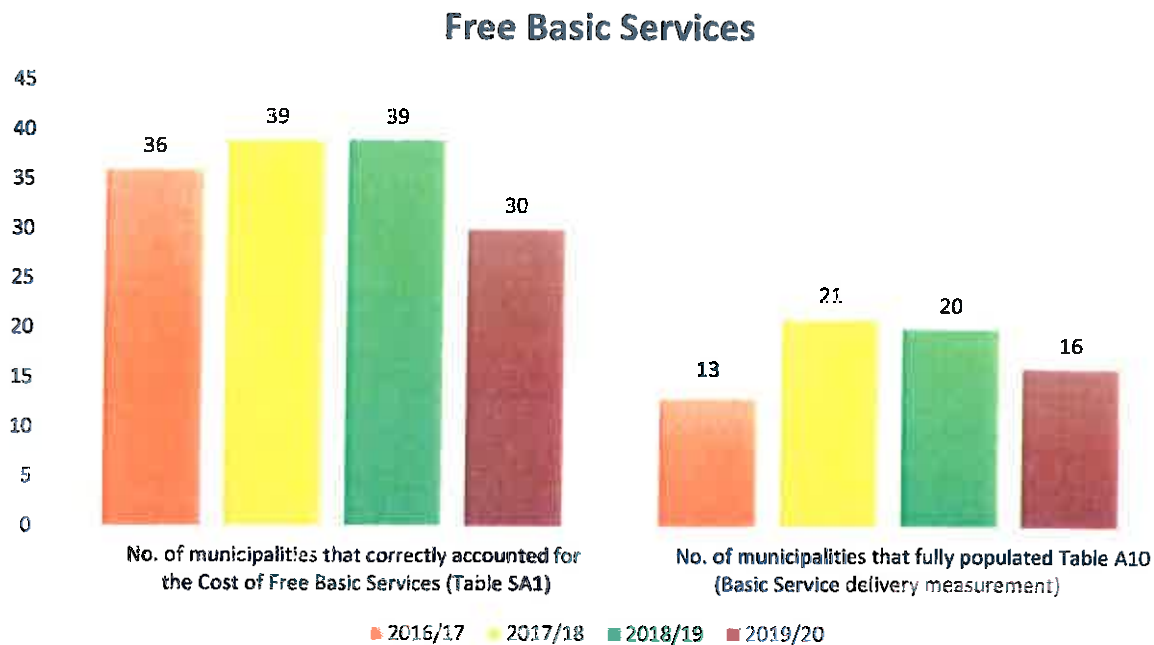
• Free Basic services

A number of municipalities that provide services such as water, sanitation, electricity and refuse did not budget for the *Cost of free basic services*. Figure 2 illustrates that only 30 out of 51 municipalities (58.8 percent) correctly accounted for the *Cost of Free Basic Services* in Table SA1: *Supporting detail to 'Budgeted Financial Performance'* of Schedule A1. The balance of 21 out of 51 municipalities failed to correctly account for *Cost of free basic services*.

A number of municipalities did not fully populate Table A10: *Basic service delivery measurement*. Figure 2 illustrates that only 16 municipalities (31.4 percent) fully populated Table A10: *Basic service delivery measurement*. Table A10 is essential to provide statistics on the cost of Free basic services according to National policy as well as the revenue cost of free services, rebates, exemptions and discounts as per the municipal Council policy. MFMA Circular No. 58 indicates that the purpose of this information is to enable the Council and the municipality to gain an understanding of the impact that these discounts and free services have on the municipality's revenues in order to tailor its social package appropriately taking into consideration the equitable share funds provided to subsidise the provision of

Free basic services. Information in Table A10 also facilitates the analysis of which customer groups benefit from a municipality's social package as well as actual service delivery and service delivery backlogs. As a result of the incomplete information, Provincial Treasury was not in a position to fully comment in the feedback letters to municipalities on the credibility of the budget for *Free basic services*. Municipalities were encouraged to consider the basic services component of the Equitable share allocation when budgeting for *Free basic services* during the 2019/20 Tabled Budget engagements.

Figure 2: Budgeting for Free Basic Services



Source: KZN Provincial Treasury

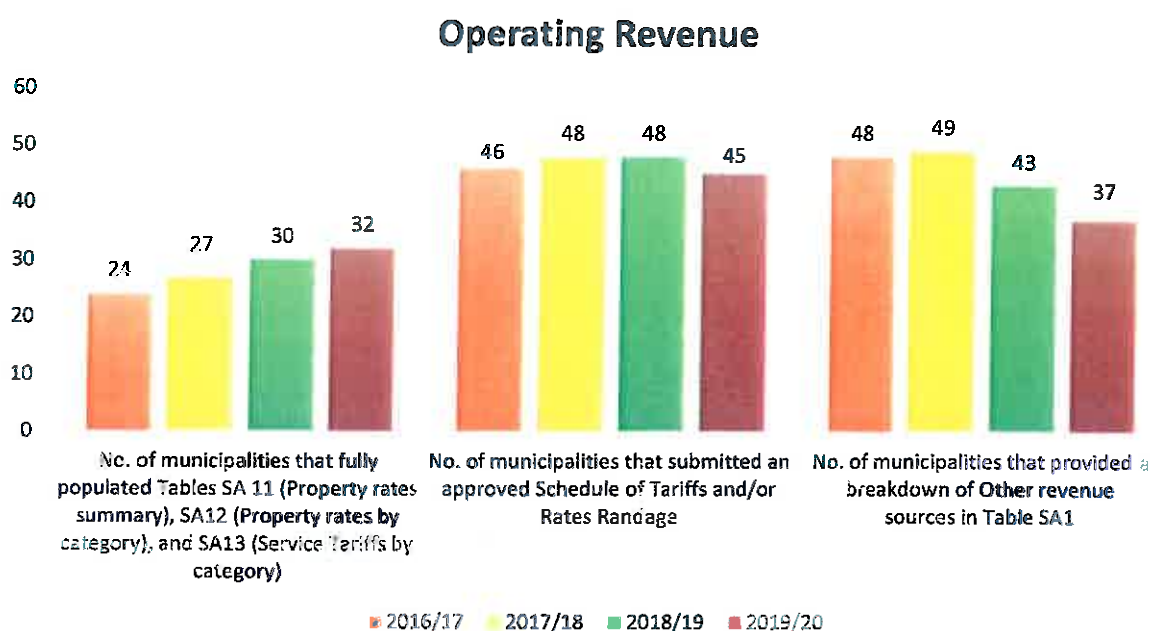
• Operating revenue

A number of municipalities did not fully populate all the supporting tables in Schedule A1. Figure 3 illustrates that there is an increasing number of municipalities that are fully populating Tables SA11: *Property rates summary*, SA12: *Property rates by category* and SA13: *Service tariff by category*. Despite the increase, only 32 municipalities (62.7 percent) fully populated Tables SA11, SA12 and SA13 that is used to determine the credibility of the budget for *Property rates* and *Service charges*.

There are still a number of municipalities that do submit their approved schedule of tariffs and/or rates randages. As represented in Figure 3, 45 municipalities (88.2 percent) submitted their approved schedule of tariffs with their budgets which enabled Provincial Treasury to assess the reasonability of the budget for applicable revenue items against the approved tariffs. This represents a regression from the 2018/19 budget submissions to the 2019/20 budget submissions.

A number of municipalities failed to provide a breakdown of *Other revenue* sources in Table SA1. Municipalities were reminded to ensure that Table SA1: *Supporting detail to 'Budgeted Financial Performance'* and the narrative budget document are effectively used to provide a detailed breakdown of *Other revenue* as this information provides an indication of realistically anticipated revenue. Figure 3 illustrates that only 37 (72.5 percent) out of the 51 delegated municipalities provided a breakdown of *Other revenue* sources in Table SA1.

Figure 3: Budgeting for Operating Revenue



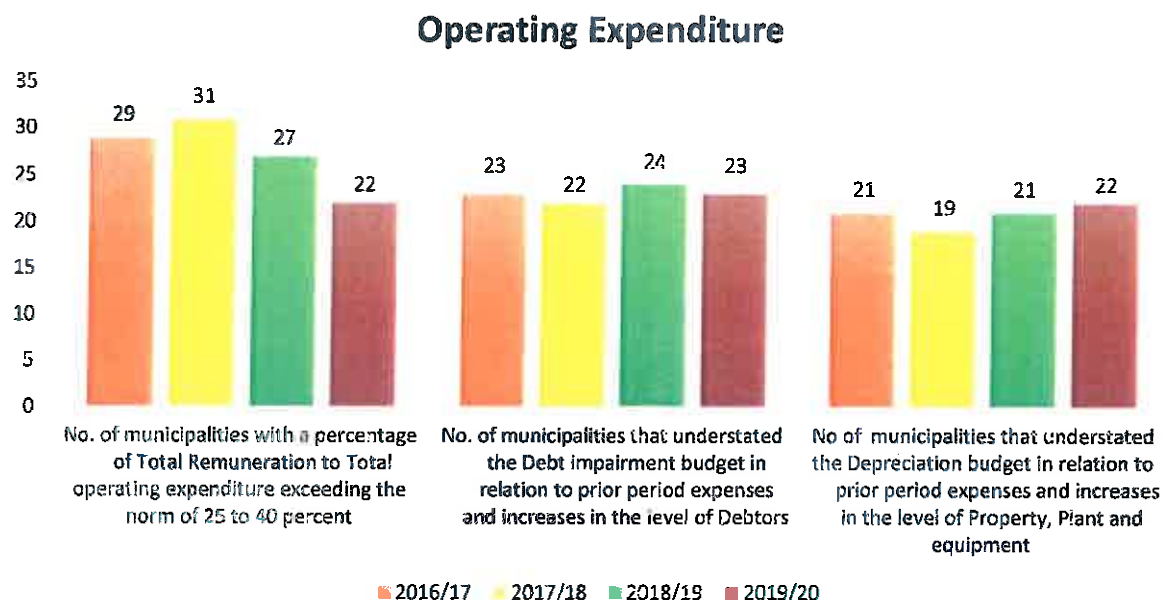
Source: KZN Provincial Treasury

• Operating expenditure

The percentage of total Remuneration to total Operating expenditure exceeded the norm range for a number of municipalities in the 2019/20 Approved Budget. As per MFMA Circular No. 71, the norm range for total Remuneration as a percentage of total Operating expenditure is between 25 and 40 percent. MFMA Circular No. 71 indicates that ratios in excess of the norm could indicate inefficiencies, overstaffing or even incorrect focus due to misdirected expenditure to non-essential or non-service delivery related expenditure. Based on the assessments of the 2019/20 Approved Budgets, at least 22 municipalities (43.1 percent) are above the norm as illustrated in Figure 4.

Municipalities are still understating the budget for non-cash expenditure. Figure 4 illustrates that at least 23 municipalities (45.1 percent) understated their *Debt impairment* budget and 22 municipalities (43.1 percent) understated their *Depreciation and asset impairment* budget. While these two line items in the Statement of financial performance are non-cash items, they do contribute to the calculation of the Operating surplus/deficit of the municipality. Understating the *Operating expenditure* budget also implies that municipalities are not taking all costs into account when determining cost reflective tariffs for their municipalities.

Figure 4: Budgeting for Operating Expenditure



Source: KZN Provincial Treasury

• Asset management

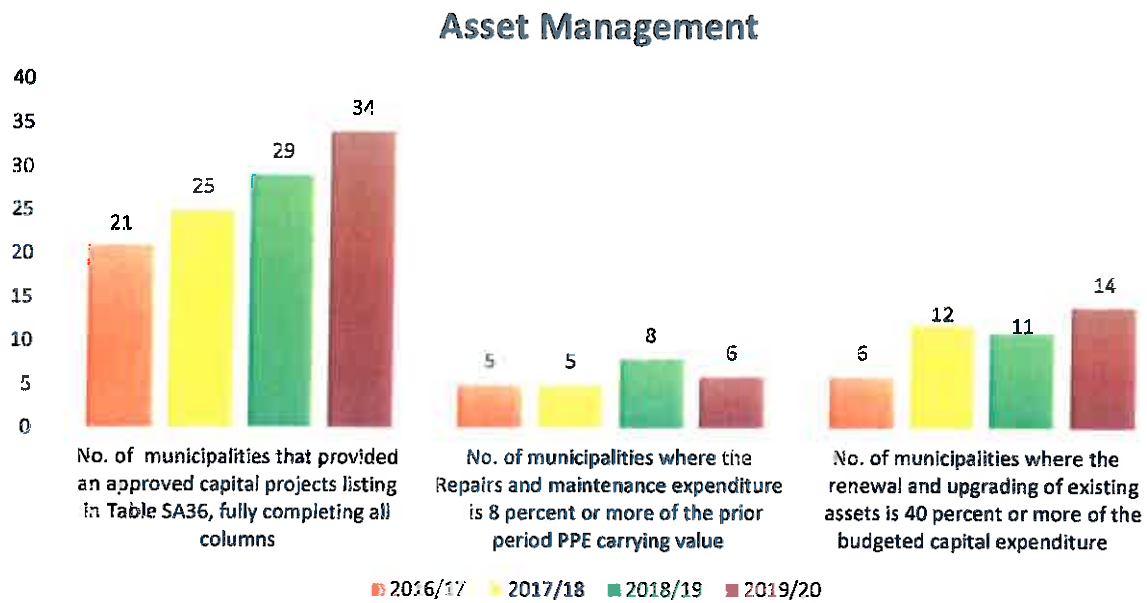
Figure 5 illustrates an increasing trend in municipalities fully populating Table SA36 in the 2019/20 Approved Budget. Thirty-four (34) municipalities (66.7 percent) fully completed Table SA36 which requires the following descriptions:

- *Description of the projects;*
- *Asset classifications;*
- *GPS co-ordinates;*
- *The relevant wards;*
- *Whether the project is a new or renewal of an asset; and*
- *The estimated rand value.*

This information assists with effective planning for the Capital budget and therefore all municipalities must provide the required details.

MFMA Circular No. 55 highlighted the concern about the low levels of expenditure on repairs and maintenance and the renewal of existing infrastructure in most municipalities. Municipal Councils, Mayors and Municipal Managers were therefore urged to ensure that allocations to repairs and maintenance and the renewal of existing infrastructure are prioritised. In this regard, municipalities were requested to allocate at least 8 percent of the prior year PPE value towards *Repairs and maintenance* and at least 40 percent of the Capital budget towards the *Renewal and upgrading of existing assets*. It was however noted with concern that municipalities are still not adequately budgeting for the repairs and maintenance of assets or for the renewal and upgrading of existing assets. As per the assessment of the 2019/20 Approved Budgets, only six (6) municipalities (11.8 percent) budgeted for *Repairs and maintenance* of at least 8 percent or more of the prior period *PPE* value while only 14 municipalities (27.5 percent) allocated 40 percent or more of the Capital budget towards the *Renewal and upgrading of municipal assets*. Insufficient expenditure towards repairs and maintenance of assets could increase the impairment of assets whilst low expenditure towards the renewal and upgrading of existing assets would result in aged assets and may negatively impact on service delivery.

Figure 5: Asset Management



Source: KZN Provincial Treasury

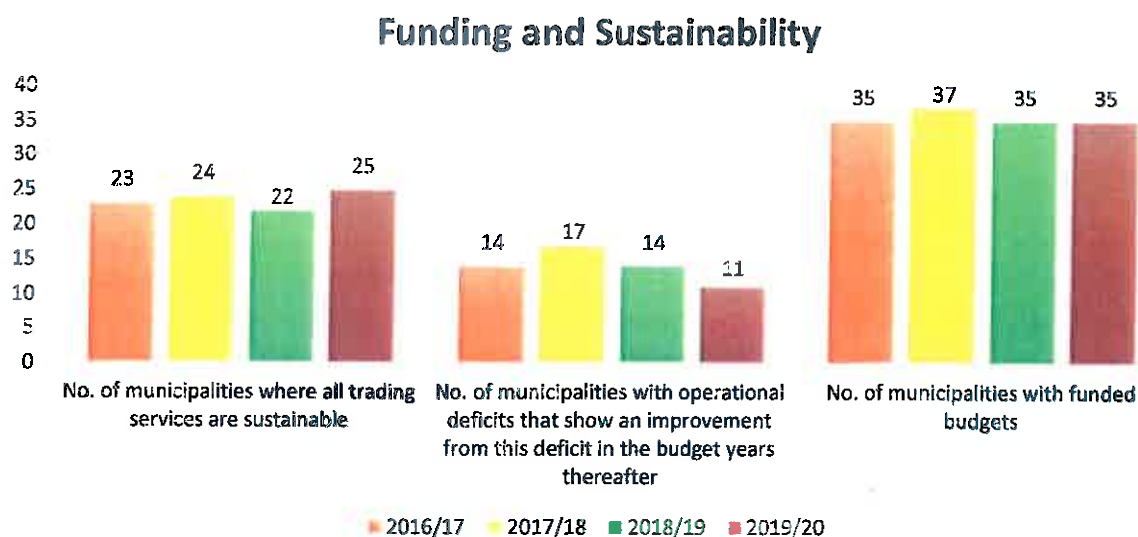
• Funding and sustainability

Figure 6 illustrates that only 25 municipalities (49 percent) are in a position where all their trading services are sustainable. The remaining 26 municipalities have budgeted to trade at a deficit on some or all of their services which will negatively impact the future sustainability of the municipality. The budgeted trading losses are caused by the municipalities not having cost reflective tariffs as well as inefficiencies in the provision of these services.

MFMA Circular No. 55 states that a municipality should budget for a moderate surplus so as to contribute to the funding of the Capital budget. There are 11 (21.6 percent) municipalities that budgeted for operational deficits for the 2019/20 budget year but reflected improvements in the two outer years.

Figure 6 also illustrates that only 35 delegated municipalities approved funded budgets for the 2019/20 budget year. One of the causes of unfunded budgets is due to the fact that some municipalities' have trading services that are simply not sustainable given the current structure of the municipalities. Municipalities must therefore increase revenue and decrease expenditure to the extent necessary to improve their financial performance and approve funded budgets.

Figure 6: Funding and Sustainability



Source: KZN Provincial Treasury

Summary of 2019/20 Approved Budget Assessment Process

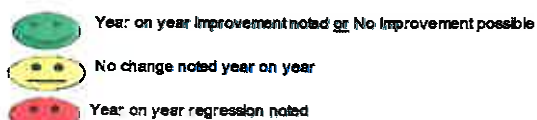
Table 11 summarises the trend analysis of milestones for the Approved Budget process over a four year budget period (2016/17 – 2019/20).

Table 11: Trend analysis of milestones for the Approved Budget process

No	Item	2016/17 Process	2017/18 Process	2018/19 Process	2019/20 Process	Year on year
Approved (Final) Budget						
1	Nos. of Approved budgets NOT considered by 31 May (30 days prior to the start of the financial year)	1 (2%)	1 (2%)	3 (6%)	3 (6%)	
2	Nos. of muns. that did NOT submit their Approved Budget to PT within 10 working days	0 (0%)	1 (2%)	2 (4%)	5 (10%)	
3	Nos. of muns. whose Approved budgets were NOT in the correct format/version applicable	0 (0%)	0 (0%)	0 (0%)	0 (0%)	
4	Nos. of muns. that did NOT place their Budget on the municipal website within 5 working days of tabling	7 (12%)	15 (29%)	3 (6%)	3 (6%)	
5	Nos. of muns. that did NOT provide a consolidated budget (where applicable)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	
6	Nos. of muns. that re-tabled an Approved Budget before 30 June (start of the financial year)	0 (0%)	3 (20%)	1 (7%)	2 (4%)	
7	Nos. of muns. with Funded Approved budgets	41 (71%)	37 (73%)	35 (68%)	35 (68%)	
8	Nos. of muns. with Unfunded Approved budgets	13 (22%)	13 (25%)	13 (25%)	16 (31%)	
9	Nos. of muns. where funding positions of the Approved budget could not be determined	4 (7%)	1 (2%)	3 (6%)	0 (0%)	
10	Nos. of muns. that formally responded to PT's findings on the Tabled Budget	16 (28%)	11 (22%)	14 (27%)	12 (24%)	
11	Nos. of muns. that provided Council resolution indicating that PT comments were considered		16 (31%)	22 (43%)	19 (37%)	
SDBIP						
12	Nos. of FINAL SDBIP's NOT submitted to PT	4 (7%)	1 (2%)	1 (2%)	1 (2%)	

* Nos. of delegated muns. in KZN decreased from 58 to 51 after the August 2016 Local Government election

Key



Source: KZN Provincial Treasury

The four year trend analysis reflects that the number of municipalities that did not consider their budgets for approval by 31 May 2019 remained the same for the 2019/20 budget process as the 2018/19 budget process at three municipalities. The Mpofana Local Municipality applied for an extension before 30

June 2019 in terms of Section 27(2) of the MFMA and was thus not issued with a non-compliance letter. The eDumbe and AbaQulusi Local Municipalities were both issued with non-compliance letters. Municipalities appear to have utilised the feedback given during the 2019/20 Table Budget process to improve the quality of their budgets as there were no municipalities where the funding position of the 2019/20 Approved Budget could not be determined. However, the number of funded budgets approved in the province during the 2019/20 budget process remained the same at 35 municipalities as in the 2018/19 budget process whilst the number of unfunded Approved Budgets increased from 13 in the 2018/19 budget process to 16 in the 2019/20 budget process. Two municipalities re-tabled their budgets to reflect more realistic revenue. The uMsinga Local Municipality had initially understated *Transfers and subsidies* and the uMvoti Local Municipality had to revise the *Service charges – electricity revenue* downwards as their application for higher tariffs was turned down by NERSA.

Table 12 shows a summary of the statistics on the 2019/20 municipal budget assessment process for both the Tabled and Approved Budget:

Table 12: Summary of the outcomes on the 2019/20 Budget Assessment Process

	No. of Budgets	Name of municipality
<u>2019/20 Tabled Budgets</u>		
Budgets tabled late (less than 90 days before 1 July 2019)	1	Mandeni
Budgets received (electronic and printed copies)	51	
Budgets Assessed	51	
Budgets Tabled in correct formats	50	
Funded Budgets	27	
Unfunded Budgets	20	
Undetermined Funding Position	4	
<u>2019/20 Approved Budgets</u>		
Budgets not considered for Approval by 31 May 2019	3	Mpofana, eDumbe and AbaQulusi
Budgets approved in correct formats	51	
Budgets received (electronic and printed copies)	51	
High level assessments conducted on Approved Budgets	51	
Funded Budgets	35	
Unfunded Budgets	16	
Undetermined Funding Position	0	

Source: KZN Provincial Treasury

Table 12 shows the funding positions of the 2019/20 Tabled and Approved Budgets of all delegated municipalities. The table shows that initially there were only 27 Tabled Budgets which were funded, 20 were unfunded while the funding position for four (4) municipalities could not be determined mainly due to incomplete information. However, through further engagement and support to municipalities by Provincial Treasury, the funding position of the Approved Budgets improved. Table 12 shows that 35 of the Approved Budgets were funded, 16 were unfunded while no municipalities remained with a funding position which could not be determined.

Table 13 shows the funding position of each delegated municipality's 2019/20 Tabled Budget and 2019/20 Approved Budget as per Provincial Treasury's assessments.

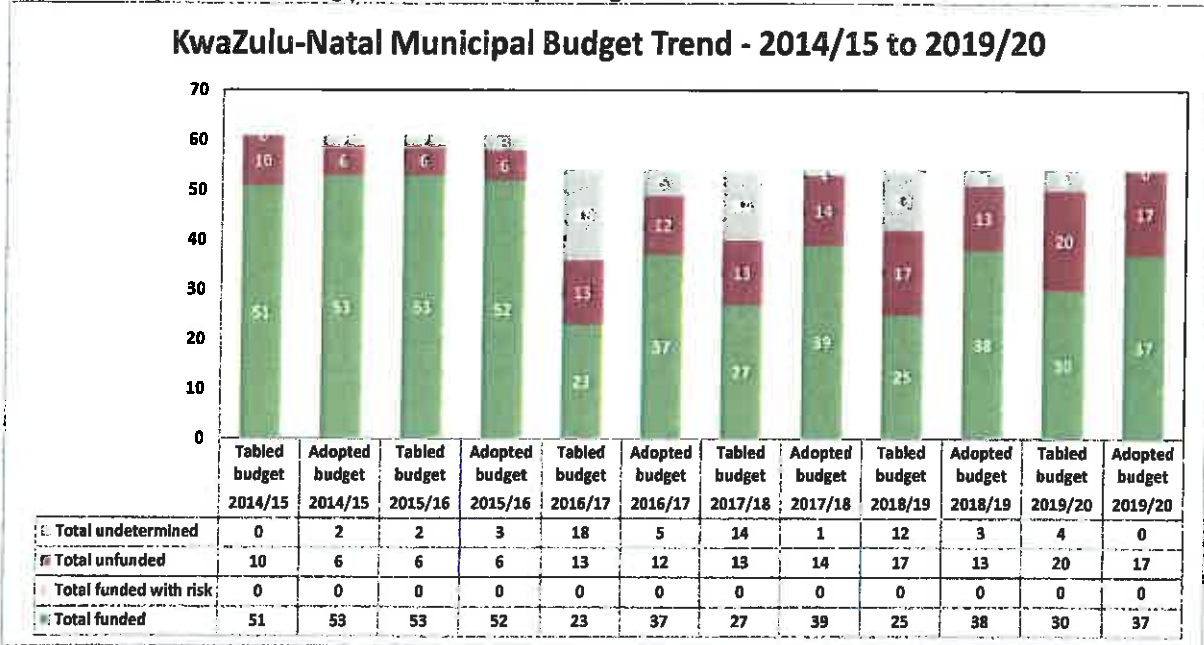
Table 13: Funding Position of 2019/20 Tabled and Approved Budgets

No.	Municipalities	Tabled budget	Approved budget
1	uMdoni	Funded	Funded
2	uMzombe	Funded	Funded
3	uMuziwabantu	Funded	Funded
4	Ray Nkonyeni	Funded	Funded
5	Ugu DM	Unfunded	Unfunded
6	uMshwathi	Funded	Funded
7	uMngeni	Funded	Funded
8	Mpofana	Unfunded	Unfunded
9	iMpindle	Unfunded	Unfunded
10	Mkhambathini	Funded	Funded
11	Richmond	Funded	Funded
12	uMgungundlovu DM	Unfunded	Unfunded
13	Okhahlamba	Funded	Funded
14	iNkosi Langatibalele	Unfunded	Unfunded
15	Alfred Duma	Unfunded	Funded
16	uThukela DM	Unfunded	Unfunded
17	eNdumeni	Funded	Funded
18	Nquthu	Undetermined	Funded
19	uMsinga	Funded	Funded
20	uMvoti	Unfunded	Funded
21	uMzinyathi DM	Funded	Funded
22	Newcastle	Unfunded	Unfunded
23	eMadlangeni	Funded	Funded
24	Dannhauser	Unfunded	Funded
25	Amajuba DM	Undetermined	Unfunded
26	eDumbe	Unfunded	Unfunded
27	uPhongolo	Unfunded	Unfunded
28	AbaQulusi	Unfunded	Unfunded
29	Nongoma	Funded	Funded
30	Ulundi	Unfunded	Unfunded
31	Zululand DM	Unfunded	Unfunded
32	uMhlabuyalingana	Funded	Funded
33	Jozini	Funded	Funded
34	Mtubatuba	Funded	Funded
35	Big Five Hlabisa	Funded	Funded
36	uMkhanyakude DM	Undetermined	Unfunded
37	uMfolozi	Unfunded	Funded
38	uMlalazi	Funded	Funded
39	Mthonjaneni	Unfunded	Unfunded
40	Nkandla	Unfunded	Funded
41	King Cetshwayo DM	Funded	Funded
42	Mandeni	Funded	Funded
43	KwaDukuza	Funded	Funded
44	Ndwedwe	Funded	Funded
45	Maphumulo	Undetermined	Funded
46	iLembe DM	Funded	Funded
47	Greater Kosiad	Unfunded	Funded
48	uBuhlebezwe	Funded	Funded
49	uMzimkhulu	Funded	Funded
50	Dr Nkosazana Dlamini Zuma	Funded	Funded
51	Harry Gwala DM	Unfunded	Unfunded

Source: KZN Provincial Treasury

Table 14 shows the trend analysis of the funding position of all KZN municipalities over the last six budget years (2014/15 – 2019/20).

Table 14: Analysis of the funding position of municipal budgets from 2014/15 – 2019/20



Source: KZN Provincial Treasury

Note: The table and the graph above includes data for the non-delegated municipalities namely; the eThekwin Metro, and the Msunduzi and uMhlathuze Local Municipalities. The budget assessments for the non-delegated municipalities were performed by National Treasury. The number of municipalities in KZN decreased from 61 to 54 after the August 2016 Local Government elections.

3. RECOMMENDATIONS

- As emphasised in the budget processes of previous years, municipalities continue to be 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*;
- Municipalities should also commence earlier with regards to the population of the budget figures on the system. This will allow for sufficient review of the budget extracted from the system by the Chief Financial Officer (CFO) and BSC as well as the timeous resolution of any problems that might be experienced by municipalities with the preparation of the budget. Earlier commencement of this process will also enable Provincial Treasury to download the Schedule A1 based on submitted data strings to assist the municipality to review the alignment of submitted data strings to the Schedule A1 before tabling to Council;
- 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 continue to be encouraged to invite Provincial Treasury to attend their Finance Committee or BSC meetings during the budget preparation process;

- Municipalities are encouraged to prepare and maintain a Budget Working Paper file in order to support the budget estimates and assumptions contained in their budgets. A guide on the content of the Budget Working Paper file was included in the Provincial Treasury Circular (PT/MF 10 of 2018/19 dated 12 March 2019) which was submitted to all delegated municipalities;
- Municipal information systems should have the ability to produce all required mSCOA data strings, and reflect information which is consistent with approved tariffs;
- Municipalities must ensure that they table Provincial Treasury's budget assessment comments in their Councils and submit the resolutions to Provincial Treasury;
- Municipalities must also improve the completion of budget cash flow Table A7: *Budgeted Cash Flows* and Table A8: *Cash backed reserves/accumulated surplus reconciliation* in order to eliminate the instances where Provincial Treasury is unable to determine the funding position due to insufficient information;
- Municipalities are encouraged to ensure that credible budgets are tabled and approved by Council. In terms of Section 171(1)(d)(i) of the MFMA, 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 the requirements of the MFMA must be submitted to the Mayor, the Council, the Auditor-General, the National Treasury or other Organ of State. Section 171(4) of the MFMA requires that any allegations of serious financial misconduct against the Accounting Officer, the Chief Financial Officer, a senior manager or other official of the municipality be investigated, where warranted. Furthermore, the municipal Council is required to investigate instances of financial misconduct in terms of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, Regulation No. 37699 of 2014. The Mayors of municipalities should therefore ensure that Accounting Officers and municipal officials are held accountable for financial misconduct in terms of Section 171(1)(d)(i) of the MFMA read together with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings. Municipalities are reminded that Regulation 19 of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings authorises National or Provincial Treasury to direct allegations of financial misconduct to be investigated therefore the continued lack of consequence management by municipalities will result in National or Provincial Treasury enforcing the said regulation;
- A funded budget is one of the key "game changers" identified by government. Municipalities are reminded that one of the key elements of the budget process is ensuring that the budget is appropriately funded and a funded budget is one of the indicators of sound financial management; and
- Whilst Provincial Treasury will continue to support municipalities, the primary responsibility to avoid, identify and resolve financial problems in a municipality rests with the municipality itself in terms of Section 135(1) of the MFMA. It is therefore incumbent upon the political and administrative leadership at municipalities to be vigilant with regard to the early identification of financial problems that would threaten their liquidity and the achievement of their service delivery obligations.

Kind regards



MR. R. PILLAY
MEC FOR FINANCE – KZN