



treasury

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Our reference: M-3/2/1/66 Circulars
Inkomba yethu:
Ons verwysing:

Date: 09 September 2020
Usuku:
Datum:

Please quote our reference on all correspondence

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

PROVINCIAL TREASURY CIRCULAR PT/MF 04 OF 2020/21

2020/21 ADJUSTMENTS BUDGETS AND THE PROCESS FOR CORRECTING UNFUNDED 2020/21 APPROVED BUDGETS

1. Purpose

1.1 The purpose of this circular is to:

- a) Update municipalities on the outcome of the assessments of the 2020/21 Approved Budgets by Provincial Treasury, including the status of the funding positions.
- b) Remind municipalities of the deadline of 30 September 2020 for the tabling of their 2020/21 Adjustments Budgets.
- c) Inform municipalities of the process for correcting their Unfunded 2020/21 Approved Budgets in line with the decisions of the National Budget Forum.

2. Background

- 2.1 Section 24(2)(a) of the Municipal Finance Management Act, Act 56 of 2003 (MFMA) requires that an annual budget of a municipality must be approved before the start of the budget year.
- 2.2 All 51 delegated municipalities in the province approved their 2020/21 budgets before the 1st of July, in compliance with Section 24(2)(a) of the MFMA.
- 2.3 Municipalities submitted copies of their approved 2020/21 Budgets and related documents to the National and Provincial Treasuries as required by Section 24(3) of the MFMA which included uploading their relevant Original Budget (ORGB) data strings to the National Treasury Local Government (LG) Portal.

- 2.4 Provincial Treasury thereafter commenced with the assessment of the 2020/21 Approved Budgets using the National Treasury Budget Assessment Framework to determine the funding status of the 2020/21 budgets.
- 2.5 It should be noted that the funding position of the 2020/21 Final Approved Budgets were determined based on the ORGB data strings that were uploaded to the National Treasury LG Portal together with the 2020/21 Final Approved Budgets that were submitted to Provincial Treasury which reflect the figures that municipalities have on their financial systems. The assessment considered the cash flow impact of the budgeted Operating revenue and expenditure (Table A4) the Capital expenditure (Table A5) as reflected in the ORGB data strings as well as the 2018/19 Audited Annual Financial Statements.
- 2.6 Upon completion of the assessments by Provincial Treasury, municipalities were formally advised of the outcome of the funding status of their 2020/21 Approved Budgets, which was as follows: Funded (32 municipalities), Unfunded (18 municipalities) or Undetermined (1).
- 2.7 National Treasury as part of the 2020/21 Budget Process advised municipalities in their email correspondence dated 24 August 2020 that:
- *The 2020 National Supplementary Budget was delivered by the Minister of Finance in Parliament on the 24 June 2020. The 2020 Supplementary Budget responds to the COVID-19 pandemic and its impact on the economy. This includes the R20 billion allocation for local government announced by the President to assist in funding COVID-19 expenditure. This allocation consists of R11 billion added to the local government equitable share and just over R9 billion that was repurposed for the provision of water and sanitation and for sanitising public transport facilities within existing grant allocations to local government. In terms of Section 28(2)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and Section 23(3) of the Municipal Budget and Reporting Requirements (MBRR), municipalities must adjust their 2020/21 MTREF budgets to account for the revised funding allocations that were made available.*
 - *In addition, municipalities should use this adjustments budget to reprioritise the 2020/21 budget to respond to the impact of the COVID-19 pandemic on the budget. Given that it has been 5 months since the lockdown, better quality information should be available to inform the budget assumptions. Municipalities that have adopted unfunded budgets for the 2020/21 financial year must also correct their budgets through this process to ensure that the adjustments budgets are funded. The 2020/21 adjustments budget must be adopted by Council by no later than **30 September 2020**. For further information, feel free to look at the Media Statement issued by the Ministry of Finance on the outcome of the Budget Forum meeting resolutions held on 21 August 2020.*
 - *The adjustments budget data string for 2020/21 must be submitted in the format of a mSCOA data strings uploaded to the LG UpLoad Portal within 10 working days after the adjustments budget has been adopted by Council. Furthermore, funding and expenditure that pertain to COVID-19 must be recorded and ring fenced through the Municipal Standard Chart of Accounts (mSCOA) as per the guidance provided in mSCOA Circular No. 9 that was issued on 9 June 2020. The conditional grant reports required in terms of the Division of Revenue Act must also be provided to the transferring Department and the National Treasury.*
- 2.8 Subsequent to the 2020 National Supplementary Budget, the Kwazulu-Natal Provincial Government gazetted the '2020/21 Special Adjusted Provincial Allocation Transfers' for municipalities in the Provincial Gazette No. 2206 on 27 August 2020.
- 2.9 Municipalities were thereafter forwarded a copy of the Provincial Gazette by Provincial Treasury and were advised that they must use the 2020/21 Adjustments Budget mentioned above to include the '2020/21 Special Adjusted Provincial Allocation Transfers', where applicable.

3. Way forward

- 3.1 All municipalities must table and approve their 2020/21 Adjustments Budgets by **30 September 2020**, which must amongst others, include the National and Provincial revised funding allocations as well as reprioritise their 2020/21 budget to respond to the impact to the COVID-19 epidemic on their budget.
- 3.2 The National Budget Forum has, as part of their responsibilities resolved on the steps as well as on the process to be undertaken by municipalities together with relevant timelines for the correction of the 2020/21 Approved Budgets which have been assessed as Unfunded by Provincial Treasuries.
- 3.3 Municipalities whose 2020/21 Approved Budgets were assessed by Provincial Treasury as Unfunded or whose funding position could not be determined must use the opportunity to correct their budgets through this process to ensure that their Adjustments Budgets are funded. An unfunded budget position is indicative that a municipality will not have adequate resources to fund their operational expenditure and to meet all their current liabilities over the MTREF.
- 3.4 Municipalities with Unfunded 2020/21 Budgets must follow one of the two options below;

3.4.1 Option 1

Municipal Councils **must not approve** Unfunded Adjusted Budgets. All the Unfunded Adjusted Budgets must be revised until a Funded position is achieved by;

- Calculating realistic anticipated revenue. The collection rate must be conservative considering the negative effects of COVID-19.
- Reducing expenditure in line with the realistic anticipated revenue.
- Adjust internal contributions to the capital programme in line with affordability or remove internal contributions from the budget if necessary.

Once a Funded position has been achieved, table the 2020/21 Adjusted Budget to Council **on or before 30 September 2020** for approval and implementation.

3.4.2 Option 2

Where a Funded position cannot be achieved in the 2020/21 Adjustments Budget, the municipality must prepare a Budget Funding Plan as per MFMA Circular No. 93 which shows how the municipality intends to move from an Unfunded to a Funded position by reflecting a reduction in the Budgeted Shortfall in Table B8 in 2020/21. The Budget Funding Plan must also clearly reflect the financial year in which the budget will move to a Surplus position on Table A8.

Where a municipality submitted a Budget Funding Plan with their 2020/21 Approved Budget, the Municipal Manager is required to table a revised Budget Funding Plan with the Adjustments Budget on or before **30 September 2020**, taking into account the revised National and Provincial Allocations for 2020/21 and any reprioritisation of the 2020/21 budget to respond to the impact of the COVID-19 pandemic.

The Budget Funding Plan must include amongst others:-

- Realistic anticipated revenue. The collection rate must be conservative considering the negative effects of COVID-19.
- Reduced expenditure in line with the realistic anticipated revenue.
- Adjusted internal contributions to the capital programme to line with affordability on Table B7 or the internal contributions to the capital programme should be removed from the budget if necessary.

- A cash flow which presents a positive Cash and cash equivalents at year-end balance on Table B7 for the current year – including fixed cost obligations (Bulk suppliers –current account).
- A gradual improvement of Operating surpluses that will be used for the repayment of arrear obligations.

A draft Budget Funding Plan must be submitted to Provincial Treasury by the Municipal Manager **by no later than 22 September 2020** (or on an earlier date as agreed with the municipality) for comments, prior to tabling to Council for approval.

The Budget Funding Plan must be tabled in Council together with the 2020/21 Adjusted Budget **on or before 30 September 2020** for approval and oversight.

3.5 Some of the criteria of a credible Budget Funding Plan are as follows:

- 3.5.1 The amounts reflected in the Budget Funding Plan must be fully aligned to the 2020/21 MTREF budget.
- 3.5.2 The Budget Funding Plan must focus on improving the budgeted cash position and short term liquidity.
- 3.5.3 The Budget Funding Plan must include high-level governance and service delivery indicators focused on visible wins.
- 3.5.4 The Budget Funding Plan must have appropriate strategic financial indicators.
- 3.5.5 The Budget Funding Plan must have measurable indicators.
- 3.5.6 The Budget Funding Plan must be monitored by Council on a regular basis.

3.6 During the period 09 September 2020 to 08 December 2020, the following process will unfold;

3.6.1 09 September 2020 to 30 September 2020

- Provincial Treasury will engage with municipalities whose budgets were assessed to be Unfunded or whose funding position could not be established during the period **10 to 15 September 2020** to assist in attaining a Funded position.
- All municipalities must submit their Adjustments Budgets documentation together with the Budget Funding Plan (where applicable) to Provincial Treasury and upload their Adjustments Budget (ADJB) data strings to the National Treasury LG Portal **by no later than 22 September 2020** (or on an earlier date as agreed with the municipality) in order to enable Provincial Treasury to perform a preliminary funding assessment of the Adjustments Budget prior to its tabling in Council for approval.
- All municipalities must table their 2020/21 Adjustments Budgets **by 30 September 2020** for approval which must incorporate all the requirements stipulated by National Treasury in their email of 24 August 2020 (as per point 2.7 above), together with their Budget Funding Plan (where applicable).

3.6.2 01 October 2020 to 11 October 2020

- Provincial Treasury to finalise the assessments of the 2020/21 Adjustments Budgets for the 51 delegated municipalities.

3.6.3 12 October 2020 - 31 October 2020

- Letters will be sent by National Treasury to those municipalities whose **December 2020 Equitable Share transfer will be withheld**, similar to the letters sent by National Treasury to the municipalities that had their December 2019 Equitable Share transfers withheld as a result of approving Unfunded 2019/20 Special Adjustments Budgets.

3.6.4 08 December 2020

- National Treasury will transfer the December 2020 Equitable Share allocations to the respective qualifying municipalities.

4. Conclusion

- 4.1 **ALL** municipalities **MUST** prepare their 2020/21 Adjustments Budgets on their financial systems and extract Schedule B directly from their financial systems that form part of the Adjustments Budget documents that are tabled in Council.
- 4.2 Municipalities who submit ADJB data strings that are of a poor quality **run the risk of their Budget Funding status moving from Funded to Unfunded** during this process and their December 2020 Equitable Share transfer being withheld by National Treasury.
- 4.3 Provincial Treasury officials will contact those municipalities whose 2020/21 Approved Budgets were assessed as Unfunded and/or Undetermined to arrange for an engagement between Provincial Treasury and the municipality (virtual engagement).
- 4.4 Please note that the following municipal representatives, at a minimum, should be in attendance at the engagements with Provincial Treasury:
 - The Mayor
 - The Deputy Mayor
 - The Speaker
 - The Municipal Manager
 - The Chief Financial Officer
 - The Budget Manager

Please direct any enquiries to the Chief Director: Municipal Finance Management: Mr. Farhad Cassimjee on the following e-mail address: farhad.cassimjee@kzntreasury.gov.za

Yours sincerely


MR R PILLAY

MEC FOR FINANCE – KZN

cc: Mr. J. Hattingh, National Treasury
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