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## OFFICE OF THE MEC FOR FINANCE

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

**Date: 28 September 2020**  
**Usuku:**  
**Datum:**

**Please quote our reference on all correspondence**

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

### **PROVINCIAL TREASURY CIRCULAR PT/MF 05 OF 2020/21**

#### **FINDINGS ON THE 2020/21 MUNICIPAL BUDGET ASSESSMENT/EVALUATION**

Provincial Treasury assessed 47 of the 2020/21 Tabled Budgets of the 51 delegated municipalities due to the non-submission and late submission of the budget and related documents to Provincial Treasury by four 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 2020/21 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 errors which municipalities should consider and address (where applicable) when preparing their 2020/21 Adjustments Budgets and the 2021/22 MTREF Budgets.

#### **2. BACKGROUND AND DISCUSSION**

##### **Tabling of the 2020/21 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* by 31 August 2019 as per the requirements of the MFMA. Table 1 shows the five municipalities who did not table their *Time schedule outlining key deadlines* by the prescribed deadline of 31 August 2019 and all were issued with non-compliance letters.

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

**Table 1: Municipalities which tabled their 2020/21 Time schedules outlining key deadlines after 31 August 2019**

No	Name of municipality	No	Name of municipality
1	Richmond	4	Newcastle
2	uMgungundlovu DM	5	uPhongolo
3	Dannhauser		

Source: KZN Provincial Treasury

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 29 municipalities as listed in Table 2.

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 2020 and/or in April – May 2020;
- There were no dates reflected with regards to the Budget Steering Committee meetings, as well as council meeting dates for all the mandatory processes included in the Timeline;
- 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 IDP.

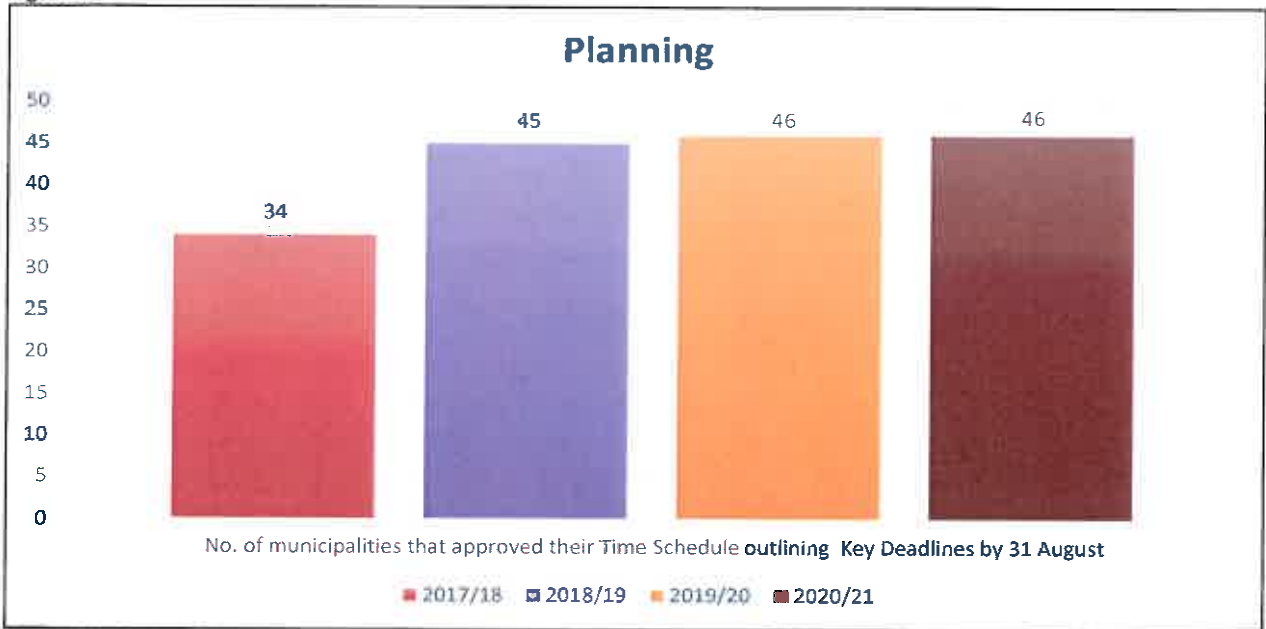
**Table 2: Municipalities where gaps were identified in their 2020/21 Time schedules outlining key deadlines**

No	Name of Municipality	No	Name of Municipality	No	Name of Municipality
1	Ugu DM	11	iMpendle	21	Ulundi
2	uMgungundlovu DM	12	Mkhambathini	22	uMfolozi
3	uThukela DM	13	Richmond	23	uMlalazi
4	Amajuba DM	14	Nquthu	24	Nkandla
5	Zululand DM	15	Newcastle	25	Ndwedwe
6	King Cetshwayo DM	16	Dannhauser	26	Greater Kokstad
7	uMdoni	17	eDumbe	27	uBuhlebezwe
8	uMzumbi	18	uPhongolo	28	uMzimkhulu
9	uMuziwabantu	19	AbaQulusi	29	Dr. Nkosazana Dlamini Zuma
10	Ray Nkonyeni	20	Nongoma		

Source: KZN Provincial Treasury

The number of municipalities 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 has remained constant at 46 in 2020/21 when compared to 2019/20. Figure 1 illustrates the number of municipalities that approved their *Time schedules outlining key deadlines* by 31 August over 2017/18 to 2020/21.

Figure 1



Source: KZN Provincial Treasury

### Provincial Treasury's support to municipalities on the 2020/21 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 provide Electricity are expected to submit applications for an electricity tariff increase to the National Energy Regulator of South Africa (NERSA) in line with Section 43 of the MFMA. To ensure an improvement in the quality and timeliness of the tariff increase applications to be submitted, NERSA jointly with Provincial Treasury conducted a two-day workshop on 15 and 16 October 2019 in Durban. The purpose of the workshop was mainly to highlight the correct process of completing and submitting the relevant application forms and to remind municipalities of the deadlines for other related processes. The workshop was conducted for all delegated and non-delegated municipalities which are licenced to provide electricity services and was attended by 77 municipal officials from 22 municipalities.

Technical support for the 2020/21 budget preparation process was limited to remote support on request due to the lockdown restrictions on travelling.

To guide all 51 delegated municipalities with the preparation of their 2020/21 budgets and to monitor compliance with the Municipal Budget and Reporting Regulations (MBRR), Provincial Treasury issued Circular PT/MF 10 of 2019/20 dated 16 March 2020 (Preparation, submission and publication of the 2020/21 MTREF budget) to municipalities.

The circular covered the following areas relating to the Budget preparation process:

- Preparation of the 2020/21 MTREF Municipal Budgets;
- Format Requirements for the 2020/21 MTREF Municipal Budgets;
- Balance Sheet and Cash Flow Budgeting;
- Funding Position of the 2020/21 MTREF Municipal Budgets;
- Technical Assistance on the 2020/21 MTREF Tabled Budgets;
- Engagement with municipalities on the 2020/21 MTREF Tabled Budgets;
- Submission of the 2020/21 MTREF Municipal Budgets;

- Publication of the 2020/21 MTREF Municipal Budgets;
- 2020/21 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 2020/21 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 the Provincial and National Treasuries in prior years that should have been considered and addressed (where applicable) by municipalities when preparing their 2020/21 MTREF budgets.

## 2020/21 Tabled Budget Assessment Process

### Tabling of the 2020/21 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.*

Following the announcement of a national lockdown by the State President due to the outbreak of the Covid-19 pandemic, the municipalities and municipal entities were faced with the challenge of fully complying with the MFMA legislative requirements. As a result, the Minister of Finance issued a conditional Exemption Notice in terms of Section 177(1)(b) of the MFMA on 30 March 2020 to facilitate and enable the performance of legislative responsibilities by municipalities and municipal entities during the National State of Disaster. Therefore municipalities were exempted from complying with Section 16(2) of the MFMA. In KZN there were 38 municipalities that tabled their 2020/21 Draft Budgets at least 90 days before the start of the budget year. The remaining 13 municipalities tabled their Draft Budgets by 31 May 2020.

### Submission of the 2020/21 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 the National and Provincial Treasuries in both printed and electronic formats. As per MFMA Budget Circular No. 98, the date for the submission of the PDF and electronic copies was 01 April 2020 if a municipality tabled on 31 March 2020.

Due to the exemption from complying with the requirements of Section 22(b)(i) of the MFMA, municipalities were not issued with non-compliance letters by the MEC for Finance where this requirement was not met, however, the submission thereof was monitored by Provincial Treasury. As at 31 May 2020, the uPhongolo, uMlalazi and AbaQulusi Local Municipalities did not submit one or more of the required Budget and related documents to Provincial Treasury.

Table 3 lists the municipalities that did not submit one or more of the required Budget and related documents timeously.

**Table 3: Municipalities that did not submit electronic or PDF copies of their 2020/21 Tabled Budgets timeously**

No	Municipalities that did not submit electronic copies timeously	No	Municipalities that did not submit mSCOA data strings (PRTA) timeously	No	Municipalities that did not submit PDF copies timeously	No	Municipalities that did not submit Draft SDBIP timeously	No	Municipalities that did not submit Draft SDBIP timeously
1	uPhongolo		Dannhauser KwaDukuza	1	Nquthu	1	Nquthu	21	uMdoni
				2	Msinga	2	uMvoti	22	uMzambe
				3	uMvoti	3	Newcastle	23	uMuzwabantu
				4	eMadlangeni	4	Dannhauser	24	Ray Nkonyeni
				5	Dannhauser	5	Anejuba DM	25	Ugu DM
				6	Anejuba DM	6	eDumbe	26	uMshwathi
				7	uPhongolo	7	uPhongolo	27	uMngeni
				8	uLundi	8	AbaQulusi	28	Mpofana
				9	Zukuland DM	9	Nongoma	29	iMpendle
				10	uMhlabayalingana	10	Ulundu	30	Mkhambathini
				11	Mtubatuba	11	Zukuland DM	31	Richmond
				12	Big Five Hlabisa	12	uMhlabayalingana	32	uMgungundlovu DM
				13	uMkhanyakude DM	13	Big Five Hlabisa	33	iNkosi Langaibalele
				14	Mthonjaneni	14	uMkhanyakude DM	34	Alfred Duma
				15	Nkandla	15	uMfobozi	35	eNdumeni
				16	Mandeni	16	Mthonjaneni	36	uBuhlebezwe
				17	Ndwedwe	17	Nkandla	37	uMzimkhulu
				18	iLembe DM	18	King Cetshwayo DM	38	Dr. Nkcasazana Dlamini Zuma
						19	Ndwedwe	39	Harry Gwala DM
						20	Maphumulo		

Source: KZN Provincial Treasury

## **Outcomes of the 2020/21 Tabled Budgets Assessments/Evaluations**

Upon the receipt of the tabled 2020/21 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 the MBRR in general and to verify amongst others, whether:

- The Tabled Budgets submitted were in the correct Version 6.4.1 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.

The uPhongolo, uMlalazi and AbaQulusi Local Municipalities did not submit all their 2020/21 Tabled Budget documents in order to allow the Provincial Treasury to undertake the assessments thereof and provide comments on their Tabled 2020/21 Budgets, despite several reminders by Provincial Treasury to the municipalities to submit the documents. This included non-submission of the related budget data strings to the National Treasury portal timeously.

The Zululand District Municipality submitted their 2020/21 Tabled Budget documents for assessment on 22 May 2020 whilst their 2020/21 Final Budget was being tabled on 28 May 2020 thereby not allowing Provincial Treasury adequate time to undertake an assessment of their 2020/21 Tabled Budget.

Of the 47 delegated municipalities' budgets assessed, Provincial Treasury determined that 29 Tabled Budgets were Funded, 17 were Unfunded, one was Undetermined while the funding position for the remaining four municipalities' Tabled Budgets could not be assessed due to non-submission of the budget documents by the municipalities and are considered Undetermined.

### **Bi-lateral engagements**

Bi-laterals engagements are normally held with municipalities within the months April to May annually to discuss Provincial Treasury's findings on the municipalities' annual Tabled Budgets before formal feedback is provided. Due to the lockdown restrictions on travelling, this was not possible in the 2020/21 Tabled Budget process.

Municipalities were however engaged telephonically or via virtual meetings upon requests from the municipalities. Furthermore, comprehensive formal feedback was provided to the 47 delegated municipalities that submitted their budget and related documents timeously to Provincial Treasury.

### **Key findings on the 2020/21 Tabled Budgets Assessments**

The following were the key findings emanating from Provincial Treasury's assessment of the 2020/21 Tabled Budgets:

- **Compliance with MBRR and other legislations**

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 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.

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 SA34c: *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 2019/20 were merely replicated as the Adjusted Budget figures and were not in line with the performance trends;
- The 2019/20 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 2020/21 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 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 2019/20 Closing *Cash and cash equivalents* balance and as a result, Provincial Treasury could not ascertain the reasonableness of the 2020/21 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 (2019/20) and the budget assumptions for revenue and expenditure in the budget year (2020/21). 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 the 2020/21 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 the 2020/21 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) inflation forecasted to be within the upper limit of the 3 to 6 percent target band as specified in MFMA Circular No. 98.

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 complied with the requirements of 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 in excess of the projected Consumer Price Index (CPI) inflation target band of 3 to 6 percent as specified in MFMA Circular No. 98.

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 some municipalities.

Some municipalities under-budgeted for *Debt impairment* and *Depreciation and asset impairment*. While both these are non-cash expenses, 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 many municipalities, *General expenses*, as detailed in Table SA1 contributed more than 10 percent towards *Other expenditure* in 2020/21. 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* that 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.

- **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 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 2020/21 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 the 10 municipalities shown in Table 4 provided responses to Provincial Treasury.

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

No	Name of municipality	No	Name of municipality
1	uMdoni	6	eNdumeni
2	uMshwathi	7	uMvoti
3	Okhahlamba	8	eMad'angeni
4	Alfred Duma	9	Mandeni
5	uThukela DM	10	uMzimkhulu

Source: KZN Provincial Treasury

### **Summary of the 2020/21 Tabled Budget Assessment Process**

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 as well as the National Treasury Exemption Notice issued in this regard. 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 requirement.

The number of Tabled Budgets assessed decreased from 51 to 47 due to the non-submission and late submission of the budget and related documents to Provincial Treasury. The quality of the 2020/21 Tabled Budgets deteriorated which resulted in the number of budgets where the funding position could not be determined increased from four (4) in 2019/20 to five (5) in 2020/21. Encouragingly, the number of funded budgets improved from 27 in 2019/20 to 29 in 2020/21 whilst the number of unfunded budgets improved from 20 to 17 over the same period.

### **2020/21 Approved Budget Assessment Process**

#### **Approval and submission of the 2020/21 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.*

The advent of COVID-19 and the Declaration of the National State of Disaster on 15 March 2020 and the initial 21 Day Lockdown gazetted on 25 March 2020 by the National Minister of the Department of Cooperative Governance and Traditional Affairs, resulted in a government notice being issued by National Treasury which exempted municipalities and municipal entities from certain provisions of the MFMA, including Section 24(1).

Despite the exemption notice, all municipalities in the province approved their 2020/21 Budgets before the beginning of the 2020/21 financial year.

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. Three non-compliance letters were issued to the municipalities that did not submit the electronic and/or PDF copies of their budgets within the prescribed time as shown in Table 5.

**Table 5: Municipalities that did not submit electronic or PDF copies of their 2020/21 Approved Budgets timeously**

No	Municipalities that did not submit electronic copies timeously	No	Municipalities that did not submit printed-pdf copies timeously	No	Municipalities that did not submit mSCOA data strings (PROR) timeously
1	Ugu DM	1	uMuziwabantu	1	Dannhauser
2	uMshwathi	2	Ray Nkonyeni	2	KwaDukuza
3	Mpořana	3	Ugu DM		
		4	uMshwathi		
		5	uMngeni		
		6	Mpořana		
		7	Richmond		
		8	uMsinga		
		9	uMvoř		
		10	uPhongolo		
		11	AbaQulusi		
		12	Nongoma		
		13	uMlalazi		
		14	iLembe DM		

Source: KZN Provincial Treasury

**Outcomes of the High Level Assessment of the Approved 2020/21 Budgets**

Provincial Treasury conducted a high level assessment of the 2020/21 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 2020/21 Approved Budgets. Municipalities shown in Table 6 were requested to table funded 2020/21 Adjustments Budgets by 30 September 2020 by the MEC for Finance, as per the instruction to municipalities by National Treasury in their correspondence dated 24 August 2020. Failure to comply could result in those municipalities having their scheduled 08 December 2020 Equitable Share transfer being withheld by National Treasury.

**Table 6: Municipalities with unfunded 2020/21 Approved Budgets**

No	Name of municipality	No	Name of municipality
1	Ugu DM	10	eDumbe
2	Mpořana	11	AbaQulusi
3	Richmond	12	Ulundi
4	uMgungundlovu DM	13	Zululand DM
5	uThukela DM	14	uMkhanyakude DM
6	eNdumeni	15	uMfolozi
7	uMzinyathi DM	16	uMlalazi
8	Newcastle	17	Nkandla
9	Amajuba DM	18	Harry Gwala DM

Source: KZN Provincial Treasury

The funding position of the iNkosi Langalibalele Local Municipality's 2020/21 Approved Budget could not be determined and therefore has not been included in the table above.

## Key findings on the high level assessments of the 2020/21 Approved Budgets

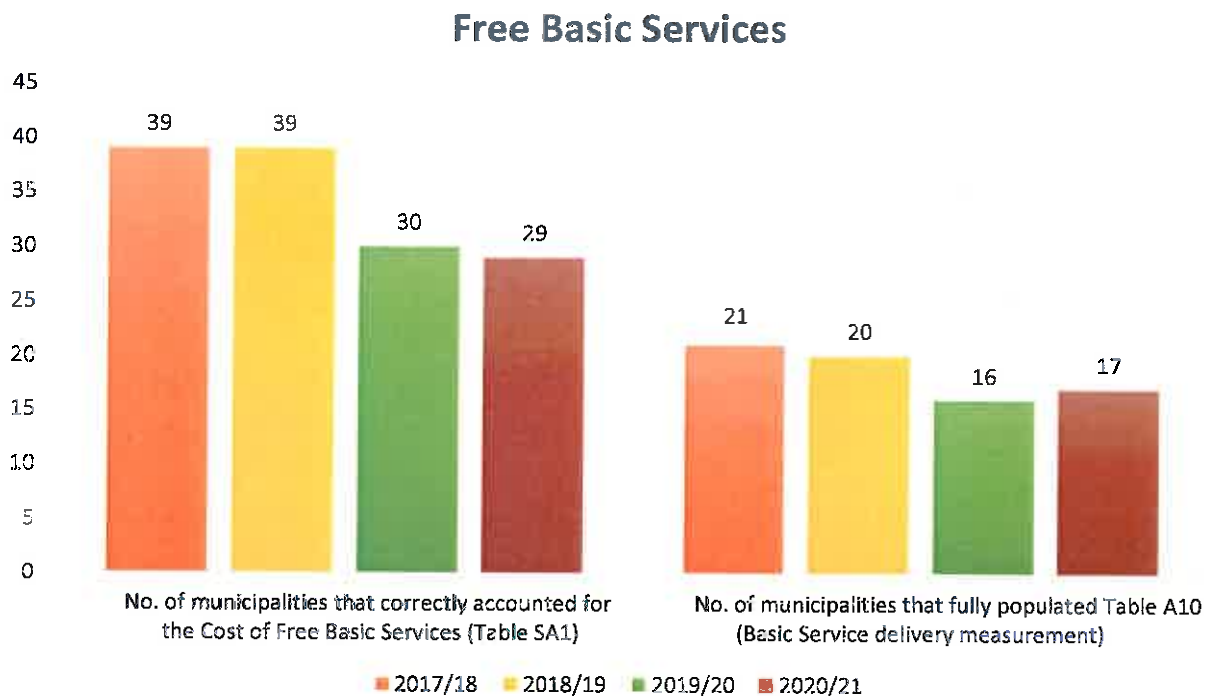
The following key findings are based on the Approved Budget assessments conducted on the 51 delegated municipalities:

- **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 29 out of 51 municipalities (56.9 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 22 out of 51 municipalities (43.1 percent) 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 17 municipalities (33.3 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 2020/21 Tabled Budget engagements.

Figure 2: Budgeting for Free Basic Services



Source: KZN Provincial Treasury

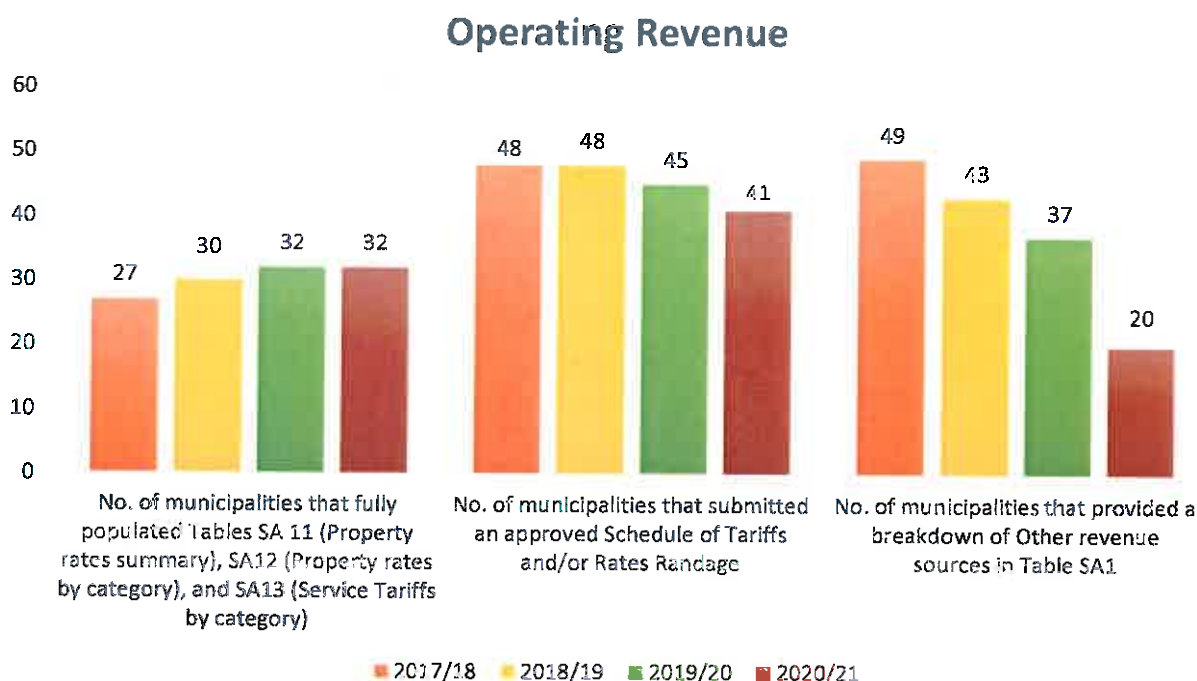
- **Operating revenue**

A number of municipalities did not fully populate all the supporting tables in Schedule A1. Figure 3 illustrates that only 32 municipalities (62.7 percent) fully populated Tables SA11: *Property rates summary*, SA12: *Property rates by category* and SA13: *Service tariff by category* that are 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, 41 municipalities (80.4 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 2019/20 budget submissions to the 2020/21 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 20 (39.2 percent) out of the 51 delegated municipalities provided a breakdown of *Other revenue* sources in Table SA1.

**Figure 3: Budgeting for Operating Revenue**



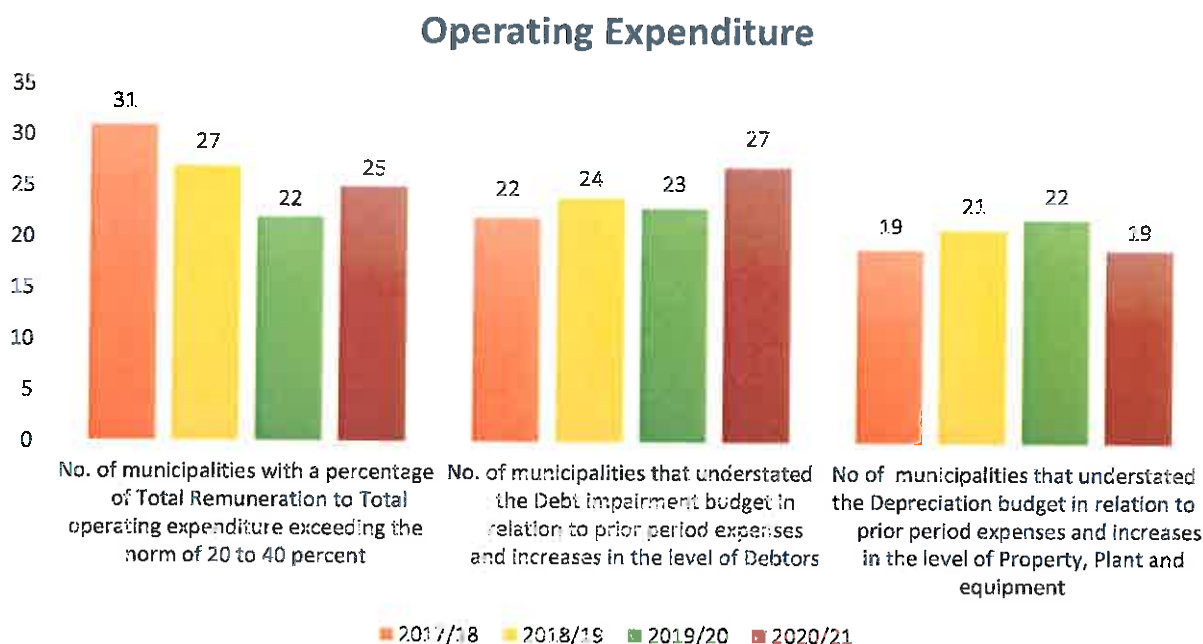
Source: KZN Provincial Treasury

- **Operating expenditure**

The percentage of total Remuneration to total Operating expenditure exceeded the norm range for a number of municipalities in the 2020/21 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 2020/21 Approved Budgets, at least 25 municipalities (49 percent) are above the norm as illustrated in Figure 4.

Municipalities are still understating the budget for non-cash expenditure items. Figure 4 illustrates that at least 27 municipalities (52.9 percent) understated their *Debt impairment* budget and 19 municipalities (37.3 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 a decreasing trend in municipalities fully populating Table SA36 in the 2020/21 Approved Budget. Twenty-eight (28) municipalities (54.9 percent) fully completed Table SA36 which requires the following descriptions:

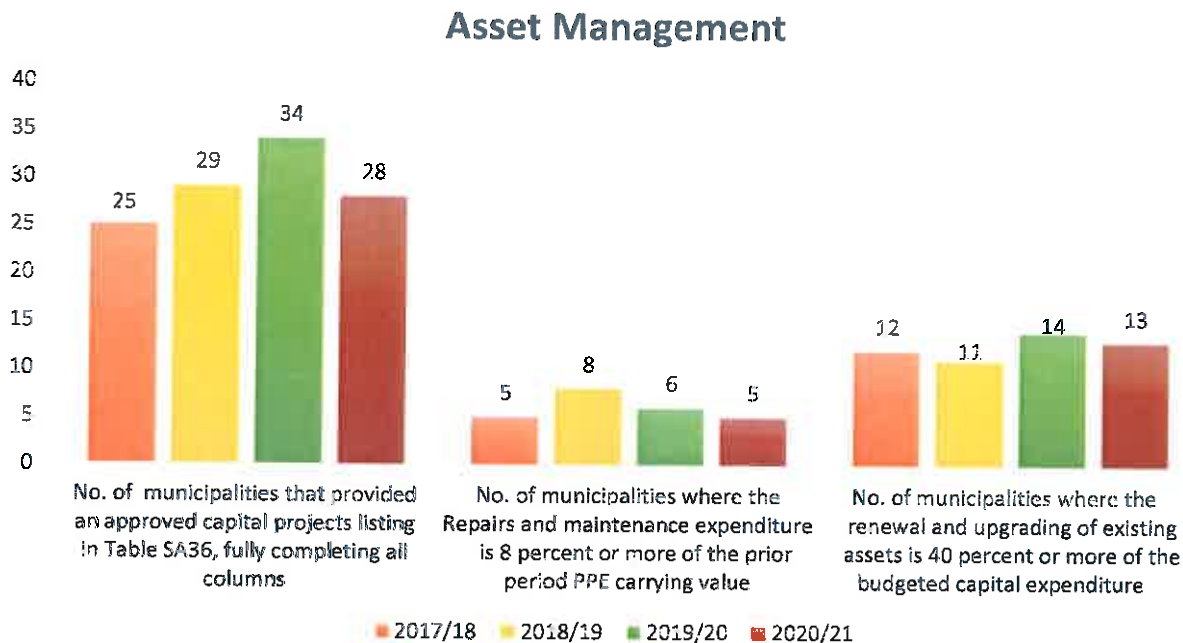
- *Description of the projects;*
- *Asset classifications;*
- *GPS co-ordinates;*
- *The relevant wards;*
- *Whether the project is a new or renewal of an asset; and*
- *The estimated rand value.*

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 2020/21 Approved Budgets, only five (5) municipalities (9.8 percent) budgeted for *Repairs and maintenance* of at least 8 percent or more of

the prior period *PPE* value while only 13 municipalities (25.5 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

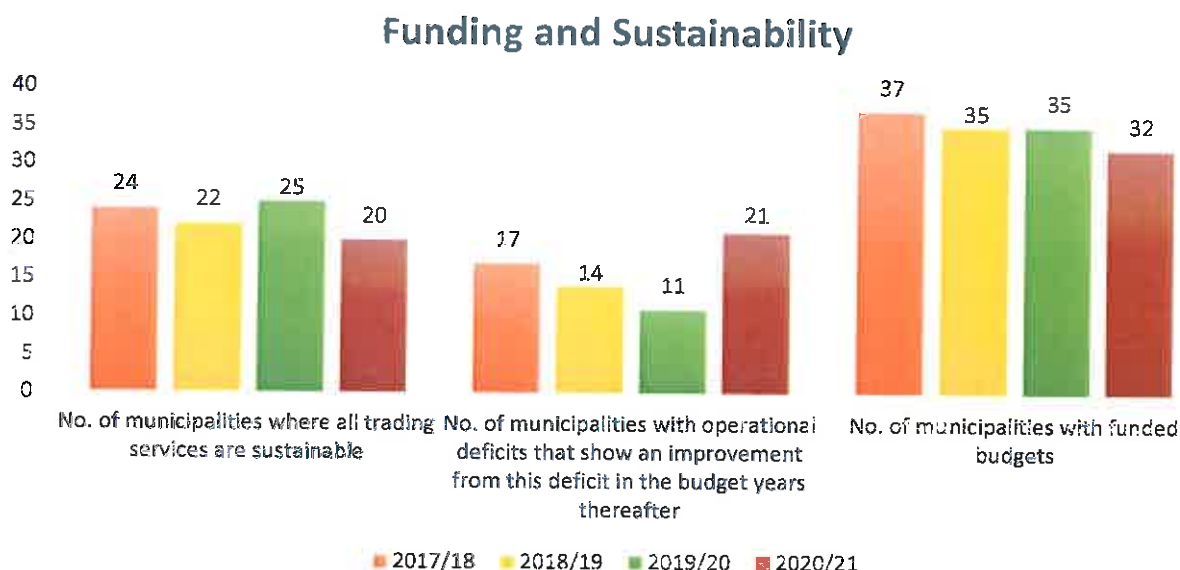
- Funding and sustainability**

Figure 6 illustrates that only 20 municipalities (39.2 percent) are in a position where all their trading services are sustainable. The remaining 31 municipalities (60.8 percent) 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 21 (41.2 percent) municipalities that budgeted for operational deficits for the 2020/21 budget year but reflected improvements in the two outer years.

Figure 6 also illustrates that only 32 delegated municipalities (62.7 percent) approved funded budgets for the 2020/21 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 budget for realistic anticipated revenue and decrease expenditure in line with the realistic anticipated revenue to the extent necessary to improve their financial performance and approve funded budgets.

**Figure 6: Funding and Sustainability**



Source: KZN Provincial Treasury

### Summary of the 2020/21 Budget Process

Table 7 shows a summary of the statistics on the 2020/21 municipal budget assessment process for both the Tabled and Approved Budget:

**Table 7: Summary of the outcomes on the 2020/21 Budget Assessment Process**

	No. of Budgets	Name of municipality
<b>2020/21 Tabled Budgets</b>		
Budgets tabled late (less than 90 days before 1 July 2020)	13	
Budgets received (electronic and printed-pdf copies)	48	
Budgets Assessed	47	
Budgets not Assessed	4	uPhongolo, uMlalazi, AbaQulusi and Zululand DM
Budgets Tabled in correct formats	47	
Funded Budgets	29	
Unfunded Budgets	17	
Undetermined Funding Position	1	uMkhanyakude DM
<b>2020/21 Approved Budgets</b>		
Budgets not considered for Approval by 31 May 2020	22	
Budgets approved in correct formats	49	
Budgets received (electronic and printed-pdf copies)	51	
High level assessments conducted on Approved Budgets	51	
Funded Budgets	32	
Unfunded Budgets	18	
Undetermined Funding Position	1	iNkosi Langalibalele

Source: KZN Provincial Treasury



Table 8 shows the funding positions of the 2020/21 Tabled and Approved Budgets of all delegated municipalities. The table shows that initially there were 29 Tabled Budgets which were funded, 17 were unfunded, the funding position for one municipality was undetermined, while four were not assessed. However, the funding position of the Approved Budgets improved. Table 8 shows that 32 of the Approved Budgets were funded, 18 were unfunded while one municipality remained with a funding position which could not be determined. The high number of municipalities which tabled their Budgets late (less than 90 days before 01 July 2020) and those whose Budgets were not considered for approval by 31 May 2020, was mainly as a result of the National Treasury MFMA Exemption Notice which exempted municipalities from these sections of the MFMA for the 2020/21 Budget Process, due to COVID-19.

Table 8 shows the funding position of each delegated municipality's 2020/21 Tabled Budget and 2020/21 Approved Budget as per Provincial Treasury's assessments.

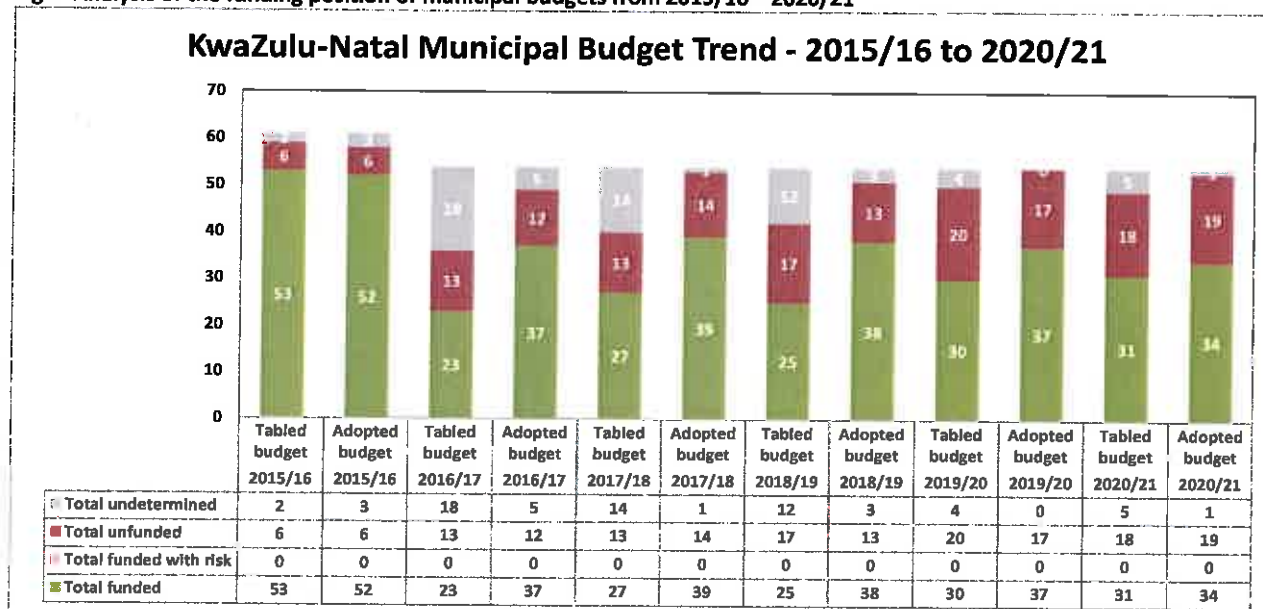
**Table 8: Funding Position of 2020/21 Tabled and Approved Budgets**

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	Mpotana	Unfunded	Unfunded
9	iMpendle	Funded	Funded
10	Mkhambathini	Funded	Funded
11	Richmond	Funded	Unfunded
12	uMgungundlovu DM	Funded	Unfunded
13	Okhahlamba	Unfunded	Funded
14	iNkosi Langalibalele	Unfunded	Undetermined
15	Alfred Duma	Funded	Funded
16	uThukela DM	Unfunded	Unfunded
17	eNdumeni	Unfunded	Unfunded
18	Nquthu	Funded	Funded
19	uMsinga	Funded	Funded
20	uMvoti	Unfunded	Funded
21	uMzinyathi DM	Unfunded	Unfunded
22	Newcastle	Unfunded	Unfunded
23	eMadiangeni	Funded	Funded
24	Dannhauser	Unfunded	Funded
25	Amajuba DM	Unfunded	Unfunded
26	eDumbe	Unfunded	Unfunded
27	uPhongolo	Undetermined	Funded
28	AbaQulusi	Undetermined	Unfunded
29	Nongoma	Unfunded	Funded
30	Ulundi	Unfunded	Unfunded
31	Zululand DM	Undetermined	Unfunded
32	uMhlabyalingana	Funded	Funded
33	Jozini	Funded	Funded
34	Mtubatuba	Funded	Funded
35	Big Five Hlabisa	Funded	Funded
36	uMkhanyakude DM	Undetermined	Unfunded
37	uMfolozi	Unfunded	Unfunded
38	uMlalazi	Undetermined	Unfunded
39	Mthonjaneni	Funded	Funded
40	Nkandla	Unfunded	Unfunded
41	King Cetshwayo DM	Funded	Funded
42	Mandeni	Funded	Funded
43	KwaDukuza	Funded	Funded
44	Ndwedwe	Funded	Funded
45	Maphumulo	Funded	Funded
46	iLembe DM	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 DM	Unfunded	Unfunded

Source: KZN Provincial Treasury

Fig 7 shows the trend analysis of the funding position of all KZN municipalities over the last six budget years (2015/16 – 2020/21).

Fig 7. Analysis of the funding position of municipal budgets from 2015/16 – 2020/21



Source: KZN Provincial Treasury

Note: The table and the graph above includes data for the non-delegated municipalities namely; the eThekweni Metro, and the Msunduzi and uMhlatuze 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.

Please note that the four municipalities whose 2020/21 Tabled Budgets were not assessed in Table 8, namely the uPhongolo, uMlalazi, and Abaqulusi Local Municipalities as well as the Zululand District Municipality's 2020/21 Tabled Budgets funding status were classified as Undetermined in Table 8 and Figure 7 above for reporting purposes.

### 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 Municipal Financial 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 and perform a preliminary budget funding assessment using the Table A4 and Table A5 data strings in line with the National Treasury Budget Funding Assessment Framework before tabling the budget 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 2019/20 dated 16 March 2020) 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* to reflect the correct funding position of the budget; and
- Finally, as a Funded Budget is one of the key "game changers" identified by the Budget Forum, municipalities are cautioned to ensure that they adopt a Funded Budget to avoid their Equitable share transfer being withheld by National Treasury as a result of approving an Unfunded Budget.

Kind regards

Yours sincerely



**MR R PILLAY**

**MEC FOR FINANCE – KZN**

cc: Mr. J. Hattingh, National Treasury  
Mr. T.V. Pillay, National Treasury  
Ms. N. Shezi, Acting HOD: KZN Provincial Treasury  
Ms. N. Mhlongo, Business Executive (Auditor-General)