



## KWAZULU-NATAL PROVINCE

TREASURY  
REPUBLIC OF SOUTH AFRICA

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Our Ref: 11/6/13/6

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Date: 14 April 2021

**TO: MUNICIPAL MANAGERS  
CHIEF EXECUTIVE OFFICERS  
CHIEF FINANCIAL OFFICERS  
KWAZULU NATAL MUNICIPALITIES AND MUNICIPAL ENTITIES**

### PROVINCIAL TREASURY CIRCULAR PT/MF 12 OF 2020/21

#### UNIFORM FINANCIAL RATIOS AND NORMS

##### 1. PURPOSE

The purpose of this Circular is to appraise municipalities and municipal entities on the process to follow for the completion and submission of their 2019/20 Uniform Financial Ratios and Norms template (the ratio template) to the National and Provincial Treasuries.

##### 2. BACKGROUND

National Treasury issued MFMA Circular No. 71 – Uniform Financial Ratios and Norms in January 2014, the purpose of which was to *provide a set of uniform key financial ratios and norms suitable and applicable to municipalities and municipal entities. Section 216(1)(c) of the Constitution and Section 2 of the Municipal Finance Management Act (MFMA) enable National Treasury to introduce uniform treasury norms and standards to ensure sound and sustainable management of fiscal and financial affairs of municipalities and municipal entities.*

MFMA Circular No. 71 further states the following: *The Circular creates a uniform categorisation of ratios, standardising formulas and inputs, providing guidance on norms and interpretation of the financial ratio analysis, as applicable to Municipalities and Municipal Entities. The ratios and norms provided in this Circular and elaborated in the annexures are to be understood in an aspirational context and utilised as soon as possible to enable municipal councils to commence with the process of introducing measures to address areas needing attention.*

The use of these Ratios and Norms should assist municipalities and municipal entities to predict, identify, prevent, avoid, and resolve financial problems/crisis timeously and serve as an early warning mechanism. Moreover, this will ensure that municipalities and municipal entities make strategic decisions based on empirical and factual information and analysis for a sustainable outcome. Monitoring and trend analysis of these ratios is critical to ensure that measures are introduced to address areas needing attention and that there are progressive improvements of municipalities own position against the norms. These indicators and their norms, when viewed holistically, provide an overview of the financial position and performance of the municipalities and municipal entities.

### 3. PREPARATION AND SUBMISSION

Municipalities and municipal entities are required to complete the attached 2019/20 ratio template using their 2019/20 audited Annual Financial Statements (AFS). Municipalities and municipalities that have received their audited AFS by 31 March 2021 are required to submit their completed template to their designated Provincial Treasury Budget Analyst by no later than **30 April 2021**. All other municipalities and municipal entities are required to submit their completed template **within one month following the receipt of the audited AFS**.

Municipalities and municipal entities must only use the attached 2019/20 ratio template and must complete both the 2018/19 (restated figures) and the 2019/20 tabs of the template using the 2019/20 audited AFS. Failure to use the specified ratio template will result in Provincial Treasury rejecting the submission which will be deemed as non-submission and non-compliance on the part of the municipalities or municipal entities. Non-compliant municipalities or municipal entities will be required to resubmit a corrected ratio template.

Upon completion of the ratio template for 2019/20 and 2018/19 (restated), municipalities and municipal entities are required to submit their completed ratio template to their designated Provincial Treasury Budget Analyst.

National Treasury will only be accepting the ratio template for 2019/20 and 2018/19 (restated) from municipalities and municipal entities once they have been reviewed by the Provincial Treasuries. To this end, a detailed review of the ratio template for 2019/20 and 2018/19 (restated) will be undertaken by Provincial Treasury subsequent to the submission thereof by the municipalities and municipal entities. Municipalities and municipal entities are therefore required to submit the following supporting documents to enable Provincial Treasury to verify the figures in the ratio template for both the 2018/19 (restated) and 2019/20 financial years as these figures cannot be obtained from the audited AFS and Budgets:

1. Total Electricity expenditure under the Net Surplus /Deficit Electricity ratio;
2. Total Water Expenditure under the Net Surplus /Deficit Water ratio;
3. Total Refuse Expenditure under the Net Surplus /Deficit Refuse ratio;
4. Total Sanitation and Water Waste Expenditure under the Net Surplus /Deficit Sanitation and Waste Water ratio; and
5. Number of Active Debtors Accounts (Previous) and the Number of Active Debtors Accounts (Current) under the Growth in Number of Active Consumer Accounts ratio.

Findings on the ratio template for 2019/20 and 2018/19 (restated) will be communicated to the municipalities and municipal entities by their designated Provincial Treasury Budget Analyst. All findings should be addressed by the municipalities and municipal entities before the ratio template for 2019/20 and 2018/19 (restated) can be finalised and submitted to National Treasury via the MFMA help desk ([mfma@treasury.gov.za](mailto:mfma@treasury.gov.za)) and the designated KZN Provincial Treasury Budget Analyst.

#### 4. TABLING TO COUNCIL

Upon finalisation of the ratio template for 2019/20 and 2018/19 (restated), municipalities and municipal entities are required to:

1. Table the 2019/20 ratio figures with interpretation and explanations to the Council's Finance Committee, Municipal Public Accounts Committee (MPAC) and at the next Council meeting to inform Council of the results in the case of municipalities. With regards to municipal entities, you are required to table the 2019/20 ratio figures with interpretation and explanations to the entity's Board of Directors or the parent municipality's Council;
2. Implement measures to address gaps and weaknesses identified. Corrective measures are to be included in the next Medium Term Revenue and Expenditure Framework budget; and
3. Submit copies of the Council resolution/Board of Directors Meeting to their designated Provincial Treasury Budget Analyst.

#### 5. CONCLUSION

Municipalities and municipal entities are encouraged to adopt a proactive approach to ensure that they submit their 2019/20 ratio template by **30 April 2021** and for the municipalities and municipal entities in the process of finalising their Audited AFS, **within one month following the receipt of the audited AFS**. Your cooperation in ensuring that all processes are complied with will be greatly appreciated.

Yours sincerely



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**Ms. N. Shezi**  
**Acting Head of Department**  
**KZN Provincial Treasury**

CC    **Mayors**  
      **Administrators**  
      **Mr. J. Hattingh – National Treasury**  
      **Mr. T.V. Pillay - National Treasury**