



Enquiries: Mr. F. Cassimjee  
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**TO: MUNICIPAL MANAGERS  
CHIEF FINANCIAL OFFICERS  
KWAZULU-NATAL MUNICIPALITIES**

**PROVINCIAL TREASURY CIRCULAR PT/MF 04 OF 2021/22**

**PROCESS OF ADDRESSING THE 2021/22 UNFUNDED BUDGET THROUGH THE  
PREPARATION OF CREDIBLE BUDGET FUNDING PLAN**

**1. Purpose**

1.1 The purpose of this circular is to:

- a) Inform municipalities whose 2021/22 Approved Budgets were assessed as being **Unfunded** by Provincial Treasury of the process to be followed to address the unfunded budget position through the preparation and /or correction of their Budget funding plans;
- b) Provide guidance and support to municipalities in the process of preparing or correcting the Budget funding plans, to ensure that they are credible;
- c) Re-iterate the National Treasury's directive in their email communication to municipalities on 25 August 2021 which stated that "A Council resolution showing commitment to address the unfunded position must be submitted by all municipalities with unfunded budgets to National and Provincial Treasury by 01 October 2021"; and
- d) Outline the Schedule of key dates to be met by the municipalities in their preparation and/or correction of the Budget Funding plans to ensure that the plans are credible.

**2. Background**

2.1 In terms of Section 18 of the Municipal Finance Management Act, Act No. 56 of 2003 (MFMA):

*(1) An annual budget may only be funded from —*

*(a) realistically anticipated revenues to be collected;*

*(b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and*

*(c) borrowed funds, but only for the capital budget referred to in section 17(2).*

*(2) Revenue projections in the budget must be realistic, taking into account —*

*(a) projected revenue for the current year based on collection levels to date; and*

*(b) actual revenue collected in previous financial years.*

2.2 In terms of Regulation 10(6) of the Municipal Budget and Reporting Regulations (MBRR), in order to determine whether an annual budget is funded in accordance with Section 18 of the MFMA, a simultaneous analysis is required of the financial performance, financial position, cash flow, and capital expenditure budget together with any requirements for working capital and cash investments held for statutory or contractual purposes of a municipality.

According to the municipal budgeting format (Schedule A of the MBRR), Table A8: Consolidated cash backed reserves/accumulated surplus reconciliation, a budget will be unfunded where the projected Cash and investments available at the end of the Budget year reflects a Shortfall after considering the “cash backing” of:

- Unspent conditional transfers;
- Unspent borrowing;
- Statutory requirements;
- Other working capital requirements;
- Other provisions;
- Long term investments committed; and
- Reserves to be backed by cash/investments.

2.3 It should be noted that the assessed budget funding position of the 2021/22 Approved Budgets were determined based on the information reflected in the audited 2019/20 Annual Financial Statements (AFS), the cash flow impact of the budgeted Operating revenue and expenditure (Tables A4/B4) as well as the Capital expenditure (Tables A5/B5) as reflected in the 2020/21 Adjustments Budget data string (ADJB) and the 2021/22 Approved Budget data string (ORGB) that were submitted to the National Treasury (LG) Upload Portal.

2.4 Upon completing the assessments of Approved Budgets of 51 delegated municipalities, Provincial Treasury, formally advised the municipalities on the outcome of the funding status of their 2021/22 Approved Budgets wherein 35 municipalities were assessed to have a funded budgets whilst 16 municipalities were assessed to have unfunded budgets.

2.5 As per MFMA Circular No. 93, municipalities with unfunded budgets were required to develop a credible Budget funding plans, which shows how and by when the Medium Term Revenue Expenditure Framework (MTREF) budgets of the municipalities would be funded if a funded budgets were not achievable in one financial year. Municipalities were required to table these plans together with their 2021/22 Annual Budgets for approval by Council.

2.6 As part of Budget assessment process, Provincial Treasury also assessed the Budget funding plans submitted by all municipalities with Unfunded budgets in line with requirement of MFMA Circular 93 in order to determine amongst others, whether the Budget funding plans were credible and were in line with the strategies which the municipalities intended to embark upon in order to achieve funded budget positions. The outcome of the assessment of the Budget funding plans was also included as part of the feedback letters to municipalities for the 2021/22 Budget process.

### **3. Discussion**

3.1 To this end, National Treasury has recommended that all municipalities:

- That did not prepare and submit credible Budget funding plans are required to develop a credible Budget funding plans which shows how and by when the MTREF budgets of the municipalities will be funded if a funded budget position is not achievable in one financial year in accordance with MFMA Circular No. 93; and
- That tabled Budget funding plans which did not appear to be credible as per Provincial Treasury’s assessment, are required to review their Budget funding plans with a view of correcting and improving their Budget funding plans. In this regard, municipalities are

required to work closely with their designated Provincial Treasury Municipal Finance Budget Analyst.

3.2 In preparing and/or correcting the Budget funding plan, the following are some of the aspects to be considered by the municipalities:

- The Budget funding plan must include high-level governance and service delivery indicators focused on visible wins;
- The Budget funding plan must have appropriate strategic financial indicators;
- The Budget funding plan must focus on improving the budgeted cash position and short term liquidity;
- The Budget funding plan must have measurable indicators;
- Realistic anticipated revenue. The collection rate must be conservative considering the negative effects of COVID-19;
- The Operating expenditure budget (Table A4) must be reduced to be in line with the realistic anticipated related operating revenue budget;
- A gradual improvement of Operating surpluses that will be used for the repayment of arrear obligations;
- Adjust internal contributions to the capital programme in line with affordability or remove internal contributions from the budget if necessary;
- A cash flow which presents a positive Cash and cash equivalents at year-end balance on Table A7 for the current year – including fixed cost obligations (Bulk suppliers – current account / Eskom and Water Board Payment Plans);
- Consider the 2020/21 Pre-audited Annual Financial Statements (AFS) figures as the baseline for the Budget funding plans; and
- Council must monitor the Budget-funding plan on a monthly basis to ensure that the objectives of the plan are achieved.

#### 4. Way forward

4.1 The Technical Committee for Finance has, as part of their responsibilities endorsed the following process together with relevant timelines to be undertaken by municipalities to prepare and correct their unfunded budgets through credible Budget funding plans.

The process will unfold as follow between the period of 31 August 2021 to 06 December 2021:

##### 4.1.1 **31 August 2021 to 28 September 2021**

- National Treasury will send the letters to all municipalities with unfunded budgets to communicate amongst others the need to develop or review their Budget funding plans with a view of improving the plans to be credible and reliable;
- Provincial Treasury will issue a Circular to guide municipalities of the process of addressing the 2021/22 unfunded budget through the preparation of credible budget funding plan;
- The designated Municipal Finance Budget Analyst from Provincial Treasury will contact the municipality to arrange the appointment date for engagements;
- The initial engagement between Provincial Treasury and the Municipality will be to discuss and agree on the process to be followed for the preparation and/or correction of the Budget funding plan and relevant timeframes;

- Municipalities must develop or correct their Budget funding plans in collaboration with the designated Municipal Finance Budget Analysts from Provincial Treasury with a view to improve the Budget funding plans;
- It must be emphasised that Municipal Managers of all municipalities with developed and/or corrected draft Budget funding plans must submit the plans to Provincial Treasury **no later than 10 September 2021** (or on an earlier date as agreed between the municipality and Provincial Treasury) for review and comments;
- Provincial Treasury will engage the municipalities again on the assessment undertaken on the Budget funding plans prior to finalisation and tabling in Council;
- Once all the recommendations and comments by Provincial Treasury have been fully incorporated into the reviewed Budget funding plans, the plans can be tabled to Council for approval;
- **The developed and/or reviewed Budget funding plan must be approved on or before 28 September 2021 by the Council;**
- **Budget funding plan must be submitted to the Provincial Treasury and National Treasury together with the Council resolution reflecting commitment by Council to address the unfunded position;** and
- **ALL** municipalities with reworked Budget funding plans **MUST** submit the monthly progress report on the implementation of the plan to Provincial Treasury in order for Provincial Treasury to assess the progress thereon and advice accordingly.

#### 4.1.2 **01 October 2021**

- A copy of the approved reworked Budget funding plan together with a copy of Council resolution and the progress report on the Budget funding plan must be submitted to National Treasury and Provincial Treasury by the municipality.

#### 4.1.3 **18 November 2021**

- National Treasury will inform the Grant management teams of names of municipalities for which to withhold their Equitable Share due to non-compliance including amongst others the outcome of this process; and
- National Treasury will send letters to those municipalities that failed to comply including amongst others the outcome of this process, informing these municipalities that their Equitable Share allocation will be withheld until such time that the municipality approve a credible Budget funding plan.

#### 4.1.4 **06 December 2021**

- Release of Equitable Share allocation by National Treasury or stopping thereof to non-compliant municipalities due to the National Treasury's email communication dated 25 August 2021.

## 5. Conclusion

- 5.1 Municipalities are required to work with Provincial Treasury in a bid to achieve a positive milestone in rectifying their unfunded budget position in the lead up to the main Adjustments Budget process in February 2022, which include the preparation and /or correction of their Budget funding plans.
- 5.2 **Failure to approve a credible Budget funding plan will result in National Treasury invoking Section 216(2) of the Constitution which states that *the National Treasury must enforce compliance with the measures established in terms of subsection (1), and may stop the transfer of funds to an organ of state if that organ of state commits a serious or persistent material breach of those measures.***

Yours sincerely



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**Ms. N. Shezi**

**Acting Head of Department: KZN Provincial Treasury**

**CC Ms. N. Dube-Ncube - MEC for Finance**  
**Mayors**  
**Deputy Mayors**  
**Speakers**  
**Administrators**  
**Mr. J. Hattingh - National Treasury**  
**Mr. T.V. Pillay - National Treasury**