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**TO: MUNICIPAL MANAGERS  
CHIEF FINANCIAL OFFICERS  
KWAZULU-NATAL MUNICIPALITIES**

**PROVINCIAL TREASURY CIRCULAR PT/MF 07 OF 2021/22**

**FINDINGS ON THE 2021/22 MUNICIPAL BUDGET ASSESSMENT/EVALUATION**

Provincial Treasury assessed the 2021/22 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 2020/21 Approved Budgets of all 51 delegated municipalities.

**1. PURPOSE**

The purpose of this circular is to:

- Share with all KwaZulu-Natal municipalities the findings of the assessments of the Tabled Budget process as well as the findings for the high level assessment of Approved Budget of the delegated municipalities in the province; and
- Highlight some of the key non-compliance areas, weakness and common errors which municipalities should consider and address (where applicable) when preparing their 2021/22 Adjustments Budgets and the 2022/23 MTREF Budgets.

**2. BACKGROUND AND DISCUSSION OF BUDGET PROCESSES**

**Tabling of the 2021/22 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 for the tabling of the Time schedule outlining key deadlines are to ensure that the budget preparation process commences timeously and complies with all legislative requirements.

Provincial Treasury issued Circular PT/MF 01 of 2020/21 on 12 August 2020 reminding municipalities to table the Time Schedule of Key Deadlines for the 2021/22 financial year by 31 August 2020. The Circular also detailed that the approval of the Time Schedule of Key Deadlines is an integral step in the planning phase of the overall budget process.

In this regard, 42 of the 51 delegated municipalities timeously tabled their Time schedule outlining key deadlines by 31 August 2020 as per the requirements of the MFMA. Table 1 shows the nine municipalities that did not table their Time schedule outlining key deadlines by the prescribed date of 31 August 2020. Non-compliance letters were issued to all nine municipalities that did not table their Time schedule outlining key deadlines by the prescribed deadline. With the exception of the uMkhanyakude District Municipality, all the municipalities shown in Table 1 subsequently approved their Time schedules outlining key deadlines for the 2021/22 budget preparation process. The uMkhanyakude District Municipality had major challenges in convening Council meetings.

**Table 1: Municipalities that did not table their 2021/22 Time schedules outlining key deadlines by 31 August 2020**

No.	Name of municipality	No.	Name of municipality	No.	Name of municipality
1	uMngeni	4	Dannhauser	7	Zululand DM
2	uMgungundlovu DM	5	Ugu DM	8	uMkhanyakude DM
3	Nquthu	6	AbaQulusi	9	Ndwedwe

Source: KZN Provincial Treasury

Provincial Treasury conducted a high level review of the Time schedule outlining key deadlines of the 50 delegated municipalities that tabled their Time schedule outlining key deadlines with a view of advising the municipalities on the areas of improvement. Gaps in terms of compliance and credibility were identified in the Time schedules outlining key deadlines of the 18 municipalities as listed in Table 2 below.

**Table 2: Municipalities that were provided with feedback on gaps identified in their 2021/22 Time schedules outlining key deadlines**

No.	Name of municipality	No.	Name of municipality	No.	Name of municipality
1	Ugu DM	7	Nkandla	13	uPhongolo
2	uMzumbi	8	Zululand DM	14	eDumbe
3	uThukela DM	9	Ray Nkonyeni	15	Nongoma
4	uMdoni	10	uMshwathi	16	Ulundi
5	King Cetshwayo DM	11	Richmond	17	uMlalazi
6	uMdoni	12	Mthonjaneni	18	uMuziwabantu

Source: KZN Provincial Treasury

The common gaps identified and provided to municipalities as feedback on the Time schedule outlining key deadlines, included the following amongst others:

- Municipalities did not include the bilateral engagements between Provincial Treasury and municipalities for the Mid-year budget and performance assessments scheduled for January – March 2021 and/or for the Tabled (Draft) Budget Assessment in April – May 2021;
- The dates for the finalisation of the Tariff policies for Property rates and Service charges for the 2021/22 financial year were not clearly reflected;
- There was no indication of the process of reviewing the prices of bulk resources;
- There was no specific deadline with regards to the annual review of all other budget related policies;
- The Time schedules outlining key deadlines for some municipalities did not indicate the process for the finalisation of the Service Delivery and Budget Implementation Plans (SDBIPs) and an indication of the dates on which the SDBIPs will be approved by the Mayors;
- 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;

- The Time schedules outlining key deadlines for some municipalities did not reflect timelines for the submission of the Tabled (Draft) Budget and all related documents for assessment and comments;
- The consultative process for some municipalities did not include public participation in respect of the budget related policies, the Annual Budget and the IDP; and
- The timelines for some municipalities did not indicate proposed dates on which the Tabled (Draft) and Approved Budget and all related documents will be placed on municipal websites as per Section 75 of the MFMA.

### **Provincial Treasury’ support to municipalities on the 2021/22 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.*

To guide all delegated municipalities with the preparation of their 2021/22 Medium Term Revenue and Expenditure Framework (MTREF) budgets and to monitor compliance with the MFMA and the Municipal Budget and Reporting Regulations (MBRR), Provincial Treasury issued Circular PT/MF 09 of 2020/21 dated 18 March 2021 (Preparation, submission and publication of the 2021/22 MTREF budget) to municipalities.

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

- Request for the current municipal Councils to approve the 2021/22 MTREF Budgets by the legislated timeframe;
- Preparation of the 2021/22 MTREF Municipal Budgets;
- Format requirements for the 2021/22 MTREF Municipal Budgets;
- Balance sheet and Cash flow budgeting;
- Funding position of the 2021/22 MTREF Municipal Budgets;
- Reconciliation of the Valuation roll data to the Billing system;
- Technical assistance on the 2021/22 MTREF Tabled Budgets;
- Engagement with municipalities on the 2021/22 MTREF Tabled Budgets;
- Submission of the 2021/22 MTREF Municipal Budgets;
- Publication of the 2021/22 MTREF Municipal Budgets;
- 2021/22 MTREF Municipal Budget Verification process;
- Budget Steering Committee (BSC);
- SDBIPs;
- National and Provincial transfers to municipalities;
- Further matters for consideration in the 2021/22 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 2021/22 MTREF budgets.

Provincial Treasury Circular also re-enforced the request as per MFMA Circular No. 108 that all Municipal Managers together with all their Senior Managers must prepare a Handover Report that must be tabled at the first meeting of the newly elected Council. The Handover Report aims to provide the new Councils with important orientation information regarding the municipality, the state of their finances, services deliveries and capital programmes as well as key issues that need to be addressed.

Provincial Treasury later issued Circular PT/MF 10 of 2020/21 dated 25 March 2021 (MTREF Budget Preparation). The objectives of this circular were to notify municipalities of all Provincial allocations to be incorporated in the budget preparations and to remind the municipalities about the expected documents to be submitted together with the 2021/22 MTREF Budget.

The MFMA Circulars No. 107 and 108 were shared with all delegated municipalities to ensure that 2021/22 MTREF Budgets incorporate the guidelines and information required in these circulars.

### **The status of Budget Steering Committee (BSC)**

Regulation 4(1) of the MBRR requires the Mayor of each municipality to establish a Budget Steering Committee (BSC) to provide technical assistance to the Mayor in discharging his/her duties as outlined in MFMA Section 53 which relates to the execution of the Budget process. There has been a gradual increase in the number of municipalities with fully operational Budget Steering Committees from 45 in the 2018/19 financial year to 47 in the 2021/22 financial year. The total number of 47 in 2021/21 represents 92.2 percent in comparison to the expected total number of 51 delegated municipalities. Table 3 shows that there are only four (4) municipalities where the BSCs are not operational. The uMzumbe and Mpošana Local Municipalities as well as Ugu District Municipality BSCs were not operational for the past two financial years 2019/20 and 2020/21.

**Table 3: Municipalities where Budget Steering Committees were not operational in the 2021/22 financial year**

No.	Name of municipality	No.	Name of municipality
1	uMzumbe	3	Mpošana
2	Ugu DM	4	uBuhlebezwe

Source: KZN Provincial Treasury

The improvement relating to the increase in the number of operational Budget Steering Committees across municipalities is encouraging as this will lead to better planning and as such, resulting in improved compliance with related legislations such as the MFMA, the Division of Revenue Act (DoRA), the MBRR, Supply Chain Management (SCM) and the Municipal Standard Chart of Accounts (mSCOA) reforms. This will furthermore ensure the preparation of more credible and reliable budgets.

### **3. 2021/22 TABLED BUDGET ASSESSMENT PROCESS**

#### **Tabling of the 2021/22 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*

With the exception of two municipalities, all delegated municipalities tabled their 2021/22 Annual Budget by 31 March 2021. The two municipalities that did not table their budgets on time are the eMadlangeni Local Municipality and the uMkhanyakude District Municipality. The two municipalities applied for an extension in terms of Section 27(3) of the MFMA to the MEC for Finance and the extensions were granted for both municipalities. The eMadlangeni Local Municipality eventually tabled their 2021/22 Annual Budget on 19 April 2021 whilst the uMkhanyakude District Municipality did not table their 2021/22 Annual Budget.

## Submission of the 2021/22 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 PDF and electronic formats. As per MFMA Budget Circulars No. 107 and 108, the date for the submission of the PDF and electronic copies was 01 April 2021 if a municipality tabled on 31 March 2021.

Table 4 lists the municipalities that did not submit one or more of the following required documents within the prescribed timeframe:

- Electronic copy of the 2021/22 Tabled Budget;
- mSCOA Table Budget data strings (TABB);
- Integrated Development Project (IDP) project detail data strings; and
- Draft Service Delivery and Budget Implementation Plan (SDBIP).

Also included in Table 4 are municipalities that did not submit the budgets in a correct version or submitted incomplete budget tables.

**Table 4: Municipalities that did not submit their 2021/22 Tabled Budgets timeously or submitted an incorrect version/incomplete tables**

No.	Municipalities that did not submit electronic copies timely	No.	Municipalities that did not submit mSCOA datastrings (TABB) timely	No.	Municipalities that did not submit IDP project detail data string (PRTA) timely	No.	Municipalities that did not submit Draft SDBIP timely	No.	Municipalities that did not Table budgets in correct version and / or not fully completed budget tables
1	Ugu DM	1	eDumbe	1	Ugu DM	1	Ugu DM	1	Mpofana
2	Zululand DM	2	uMngeni	2	uMshwathi	2	uMshwathi	2	Amajuba DM
3	uMshwathi			3	Mpofana	3	uMdoni	3	eDumbe
4	uMngeni			4	eDumbe	4	uMzambe	4	AbaQulusi
5	Dannhauser			5	uMngeni	5	Mpofana	5	Nongoma
6	uMlalazi			6	Dannhauser	6	eDumbe	6	uMsinga
7	Mpofana					7	AbaQulusi	7	Newcastle
8	eDumbe					8	Zululand DM	8	Mtubatuba
9	AbaQulusi					9	uMfolozi		
10	uMfolozi					10	uMlalazi		
						11	uMngeni		
						12	Dannhauser		
						13	eMadlangeni		

Source: KZN Provincial Treasury

## Placement of 2021/22 Tabled Budgets documents on websites as per Section 75(2) of the MFMA

Section 75(2) of the MFMA states that all documents expected to be placed on municipal websites *must be placed on the website not later than five working days after its tabling in Council or on the date on which it must be made public, whichever occurs first*. The municipalities in Table 5 did not timely place the 2021/22 Tabled Budgets documents on their websites.

**Table 5: Municipalities that did not place the 2021/22 Tabled Budgets documents on websites timeously**

No.	Name of the municipality	No.	Name of the municipality
1	Newcastle	5	Mpofana
2	Dannhauser	6	eDumbe
3	Ugu DM	7	AbaQulusi
4	uMshwathi	8	uMlalazi

Source: KZN Provincial Treasury

## Outcomes of the 2021/22 Tabled Budgets Assessments/Evaluations

Upon receipt of the 2021/22 Tabled (Draft) 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 the local community, 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 6.5 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.

Of the 51 municipalities' budgets assessed, Provincial Treasury determined that 29 Tabled Budgets were funded, while 21 were unfunded and this included the high level assessment that was undertaken on the uMkhanyakude District Municipality's tabled budget data string (TABB).

### **Bi-lateral engagements for the 2020/21 Tabled Budgets**

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 2021/22 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 2021/22 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 2021/22 Tabled Budgets. However, it must be indicated that for uMkhanyakude District Municipality, Provincial Treasury undertook a high level assessment on the data strings of the Draft Budget (TABB) uploaded into National Treasury portal. This was mainly due to the fact that the municipality did not table their 2021/22 Annual Budget and that the required supporting documents as per Schedule A of MBRR were not submitted to Provincial Treasury.

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 Dannhauser Local Municipality as a result of the non-availability of senior managers of the municipality. The municipalities were also required to table in Council for noting, Provincial Treasury's comments and responses by municipalities as part of the 2021/22 Approved Budget and related documents.

### **Key findings on the 2021/22 Tabled Budgets Assessments**

The following were the key findings emanating from Provincial Treasury's assessment of the 2021/22 Tabled Budgets:

- **Compliance with MBRR and other legislations**

Compliance checks reflected that many municipalities did not timeously submit their budgets in PDF together with related supporting documents such as the budget policies, the draft SDBIPs, the IDP project detail data string (PRTA) and the budget assumptions. 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. Other budgets were submitted in either the incorrect format or version.*

*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 by some municipalities, Provincial Treasury was not able to, in many cases, determine the accuracy of the 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 SA11: *Property rates summary*, Table SA12: *Property rates by category*, Table SA13: *Service tariffs*, 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*. The importance of completing some of the Tables stated above was re-iterated in MFMA Circular No. 107.

- **Credibility of budget figures**

The budget tables in the Schedule A1 data string for some municipalities were not fully and /or accurately completed. Discrepancies were noted in the following areas:

- Audited Outcome figures of the data strings did not reconcile to the audited Annual Financial Statement (AFS) figures;
- The full year forecast figures for 2020/21 were merely replicated as the Adjusted Budget figures and were not in line with the performance trends;
- The 2020/21 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 data strings of Schedule A1.

Some 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 operational activities 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 2021/22 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 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 completed the Full Year Forecast column in the budget, nor provided Provincial Treasury with their workings for the 2020/21 Closing *Cash and cash equivalents* balance and as a result, Provincial Treasury could not ascertain the reasonableness of the 2021/22 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 (2020/21) and the budget assumptions for revenue and expenditure in the budget year (2021/22). 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 2021/22 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 2021/22 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 and this together with the unrealistic *Other working capital requirements*, resulted in an abnormal of *Surplus/(shortfall)* position.

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 status and whether or not the municipalities would be able to pay their debts as and when they fall due.

#### • **Operating revenue**

With regard to the Operating revenue budget, some municipalities did not justify in their budget narratives reports all tariffs increases which are in excess of the projected Consumer Price Index (CPI) inflation forecasted to be in the region of 3.9 to 4.4 percent in the MTREF period of 2021/22 to 2023/24 as per MFMA Circular No. 108.

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 as indicated earlier, thereby limiting the Provincial Treasury to properly analyse the reasonableness of the budgets for Property rates revenue. 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 Fee Basic Services against the related 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 appear to have not 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**

Regarding the Operating expenditure budget, most municipalities did not justify, in their budget narrative report, all their increases in excess of the projected Consumer Price Index (CPI) inflation target band of 3.9 to 4.4 percent within the MTREF period of 2021/22 to 2023/24 as specified in MFMA Circular No. 108.

Tables SA22, SA23 and SA24 relating to councillors and staff benefits, salaries and allowances as well as personnel numbers for the municipalities were either poorly completed or not completed 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. Some municipalities also did not provide sufficiently details for *Other expenditure* 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 2021/22 Tabled Budgets. 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 the municipalities to eliminate non-priority expenditure. Furthermore, undefined projects and non-priority items could be included in *General expenses* resulting in significantly high budget amounts for *Other expenditure*.

Municipalities were advised to review their allocation of expenditure to *General expenses* and reallocate the expenditure to the appropriate expenditure items accordingly. The budget for high level of *General expenses* defeat the effective implementation of Cost containment measures.

- **Capital expenditure and Asset management**

Some municipalities continue to submit incomplete Budget Tables relating to their Capital Budget, such as 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 completed

Tables A7 and A8, the municipalities' ability to finance capital programmes from internal funding, in some cases, could not be established.

Some of the municipalities assessed to be unfunded by Provincial Treasury have budgeted for *Internally generated funds* for funding some of their capital programmes. Since their budgets were assessed as unfunded, this has raised a question of affordability for these municipalities to be able to fund some of their Capital programmes from own funding. Such municipalities are encouraged to channel these funds towards payments of long outstanding creditors, particularly bulk services.

In instances where municipalities intended to finance their capital programme through *Borrowings*, some municipalities did not submit sufficient supporting documents such as the projected amortisation schedules 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**

As per MFMA Circular No. 72 and other subsequent MFMA Circulars, municipalities are expected to implement the Service level standards together with IDP, Budget and all other related documents to drive the process of service delivery. MFMA Circular No. 72 describes Service Level Standards as an integral part of the service delivery value chain. Service level standards provides transparency in understanding performance indicators and therefore strengthens the entire performance management system. It is also used in ensuring accountability on the part of the officials responsible to provide service delivery. Therefore, it is crucial that this document must also be prepared and approved as part of IDP, Budget and other related documents used to render services. Provincial Treasury will continue to support and monitor all municipalities to ensure that they implement Service Level Standards.

With the exception of the 11 municipalities listed in Table 6 below, a total of 40 delegated municipalities submitted their Service Level Standards.

**Table 6: Municipalities that did not submit their Service Level Standards**

No.	Name of municipality	No.	Name of municipality
1	eMadlangeni	7	uMshwathi
2	Dannhauser	8	eDumbe
3	uMsinga	9	Nongoma
4	eNdumeni	10	Mpofana
5	Ugu DM	11	uMngeni

Source: KZN Provincial Treasury

### **Municipal responses to Provincial Treasury findings on the 2021/22 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, particularly to respond to the submissions made by Provincial Treasury, as part of the Budget assessment feedback report, municipalities were requested 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 three municipalities formally responded to Provincial Treasury's feedback comments on their 2021/22 Tabled Budgets they are, the King Cetshwayo District Municipality, the Alfred Duma Local Municipality and the uMzinkhulu Local Municipality.

#### 4. 2021/22 APPROVED BUDGET ASSESSMENT PROCESS

##### Approval and submission of the 2021/22 Annual 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 four municipalities, namely the uMkhanyakude District Municipality, the eMadlangeni Local Municipality, the Ndwedwe Local Municipality and the uPhongolo Local Municipality, all delegated municipalities approved their 2021/22 Annual Budgets at least 30 days before the start of the budget year. The uMkhanyakude District Municipality, the eMadlangeni Local Municipality, the Ndwedwe Local Municipality requested an extension for the consideration and approval of their 2021/22 Annual Budget. The MEC for Finance, granted the municipalities extension in terms of Section 27(2) of the MFMA. The uPhongolo Local Municipality did not apply for an extension for the approval of their 2021/22 Annual Budget in terms of Section 27(1) of MFMA and was thus issued with a non-compliance letter in this regard.

The uPhongolo Local Municipality, Ndwedwe Local Municipality, uMkhanyakude District Municipality and eMadlangeni Local Municipality approved their 2021/22 Annual Budget on 02 June 2021, 11 June 2021, 15 August 2021 and 19 August 2021 respectively.

The eMadlangeni Local Municipality was the only municipality which did not place their approved 2021/22 Annual Budget and all related documents in their website within 5 working days after tabling in Council as required by Section 75(2) of MFMA.

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. Six 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 7.

**Table 7: Municipalities that did not submit electronic or PDF copies of their 2021/22 Approved Budgets timeously**

No.	Municipalities which did not upload their PDF Budgets and related documents timeously	No.	Municipalities which did not timeously upload their IDP project detail datastrng (PRTA)
1	Dannhauser	1	uMuziwabantu
2	eNdumeni	2	KwaDukuza
		3	uMzimkhulu
		4	Zululand DM

Source: KZN Provincial Treasury

##### Outcomes of the High Level Assessment of the Approved 2021/22 Budgets

Provincial Treasury conducted a high level assessment of the 2021/22 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 2021/22 Approved Budgets.

Of the 51 assessed budgets of municipalities, 35 were assessed as Funded while 16 were Unfunded and are shown in Table 8. As per MFMA Circular No. 93 and the subsequent circulars including MFMA Circular No. 107, all municipalities with unfunded budgets were expected to prepare credible Budget funding plans that show how and by when the municipalities will move from an unfunded budget position to a funded budget position. These plans were expected to be approved by their respective Council. Provincial Treasury prepared Provincial Treasury Circular PT/MF 04 of 2021/22

to 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.

**Table 8: Municipalities with unfunded 2021/22 Approved Budgets**

No.	Name of municipality	No.	Name of municipality
1	Ugu DM	9	uMzinyathi DM
2	Mpořana	10	Newcastle
3	Richmond	11	Dannhauser
4	uMgungundlovu DM	12	Amajuba DM
5	iNkosi Langalibalele	13	Ulundi
6	uThukela DM	14	Zululand DM
7	eNdumeni	15	uMkhanyakude DM
8	uMsinga	16	Harry Gwala DM

Source: KZN Provincial Treasury

### Key findings of the 2021/22 Approved Budgets

The following key findings are based on the 2021/22 Approved Budget assessments conducted for the 51 delegated municipalities.

- **Free Basic Service**

A number of municipalities that provide services such as water, sanitation, electricity and refuse did not budget for the *Cost of free basic services*. Thirty (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 the 51 municipalities failed to correctly account for *Cost of free basic services*.

There are only 11 municipalities (21.6 percent) that fully completed 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 2021/22 Tabled Budget engagements.

- **Operating revenue**

A number of municipalities did not fully complete all the supporting tables in Schedule A1. Only 22 municipalities (43.1 percent) have fully completed Table SA11 and Table SA12 in the 2021/22 Budget cycle. These tables are crucial in determining the credibility of budget for *Property rates* and *Service charges*.

There are still a number of municipalities that did not submit their approved schedule of tariffs and/or rates ranges. There are 40 municipalities (78.4 percent) that submitted their approved schedule of tariffs and/ or rates ranges for the 2021/22 Budget cycles. The Schedule of tariffs and/or rates ranges are useful to assess the reasonability of the budget for applicable revenue items against the approved tariffs.

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. Only 33 municipalities (64.7 percent) provided breakdown of *Other revenue* in Table SA1.

- **Operating expenditure**

The percentage of total Remuneration to total *Operating expenditure* exceeded the norm range for a number of municipalities in the 2021/22 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 2021/22 Approved Budgets, at least 23 municipalities (45.1 percent) are above the norm.

Municipalities are still understating the budget for non-cash expenditure. At least 27 municipalities (52.9 percent) understated their *Debt impairment* budget. Furthermore, 21 municipalities (41.2 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 considering all costs when determining cost reflective tariffs for their municipalities.

- **Asset management**

There is a declining trend by municipalities in fully populating Table SA36 in the 2021/22 Approved Budget and this is a serious concern to Provincial Treasury.

Twenty-four (24) municipalities (47 percent) fully completed Table SA36 that 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 assets* 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 assets* are prioritised. In this regard, municipalities were requested to allocate at least 8 percent of the prior year *Property, Plant and Equipment (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 and/or for the *Renewal and upgrading of existing assets*. As per the assessment of the 2021/22 Approved Budgets, only two (2) municipalities (3.9 percent) budgeted for *Repairs and maintenance* of at least 8 percent or more of the prior period *PPE* value while only four (4) municipalities (7.8 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.

- **Funding and sustainability**

MFMA Circular No. 55 states that a municipality should budget for a moderate surplus to contribute to the funding of the Capital budget. There are 14 municipalities (27.5 percent) that budgeted for Operating deficits for the 2021/22 budget year.

Nineteen (19) municipalities (37.3 percent) are in a position where all their trading services are sustainable. It is of great concern that the remaining 32 municipalities (62.7 percent) have budgeted to trade at a deficit on some or all of their trading services that will negatively affect the future sustainability of the municipality. The municipalities not having cost reflective tariffs as well as inefficiencies in the provision of these services cause the budgeted trading losses.

Thirty-five (35) of the 51 delegated municipalities (68.3 percent) approved funded budgets for the 2021/22 financial year. One of the causes of unfunded budgets is the fact that some municipalities' have trading services that are simply not sustainable given the current tariffs structures of the municipalities. Municipalities must therefore increase revenue and decrease expenditure to the extent necessary to improve their financial performance and approve funded budgets.

### Summary of 2021/22 Annual Budget Assessment Process

Table 9 shows a summary of statistics on the 2021/22 municipal budget assessment process for both the Tabled and the Approved Budget.

**Table 9: Funding Position of 2021/22 Tabled and Approved Budgets**

Budget process	No. of Budgets	Name of municipality
<b>2021/22 Tabled Budgets</b>		
Budgets tabled late (later than 31 March 2021)	1	eMadlangeni
Budgets not tabled	1	uMkhanyakude DM*
Budgets received (electronic and printed copies)	51	
Budgets Assessed	51	uMkhanyakude DM*
Budgets Tabled in correct formats	50	
Funded Budgets	29	
Unfunded Budgets	22	
Undetermined Funding Position	0	
<b>2021/22 Approved Budgets</b>		
Budgets not considered for Approval by 31 May 2021	4	Ndwedwe, eMadlangeni, uMkhanyakude DM, uPhongolo
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	

\* - Provincial Treasury undertook a high level assessment of the municipality's data string for the Draft Budget (TABB) uploaded to the National Treasury Local Government (LG) Upload Portal and downloaded by Provincial Treasury from the National Treasury data base on 21 May 2021

Source: KZN Provincial Treasury

Table 9 shows the funding positions of the 2021/22 Annual Budgets of all delegated municipalities. The table shows that initially there were 29 Tabled Budgets that were funded and 22 were unfunded (including the uMkhanyakude District Municipality's data string (TABB) that was assessed as mentioned above). However, through further engagements and support to municipalities by Provincial Treasury, the funding position of the Approved Budgets improved. Table 9 shows that 35 of the Approved Budgets were funded and 16 were unfunded.

**The common causes identified which contribute to the unfunded budget positions of the municipalities, included the following amongst other:**

- Some municipalities budgeted for *Operating deficits* in their 2021/22 MTREF, which have negative impact on the future cash flow;
- Some municipalities are not applying realistic collection rates based on prior years' actual figures or are not providing sufficient justification in their budget narration report for the estimated receipts and this result into over-estimated cash to be received;
- Some municipalities are not budgeting to pay all budgeted Operating and Capital expenditure including the applicable Value added Tax to be incurred, resulting to understatement of cash payments;
- Some municipalities with Debt repayment plans are not budgeting for cash payments and this result into understatement of cash payments;
- Some municipalities are budgeting to fund Capital expenditure for *Internally generated fund*, while the municipalities do not have *Cash-backed reserves*;
- Some municipalities have high *Creditor* balances that have be carried forward year on year basis and this contribute negatively to the estimation of reasonable *Other working capital requirements*;
- Some municipalities are not budgeting or under budgeting for cash-backing of *Other Provisions, Unspent conditional grants* and *Statutory requirements*; and
- Some municipalities significantly misstate their *Other working capital requirements*, due to understating of their *Trade and other creditors'* balance while overstating their *Other debtors and Long term receivables* and *Consumer debtors'* balances as at the end year.

The common causes listed above results to abnormal status of *Surplus/ (shortfall)* position.

Table 10 shows the funding position of each delegated municipality's 2021/22 Tabled Budget and 2021/22 Approved Budget as per Provincial Treasury's assessments.

**Table 10: Funding Position of 2021/22 Tabled and Approved Budgets**

No	Name of municipality	Tabled budget	Approved budget	Improved / Regressed / No change
1	uMdoni	Funded	Funded	
2	uMzambe	Unfunded	Funded	Improved
3	uMuziwabantu	Funded	Funded	
4	Ray Nkonyeni	Funded	Funded	
5	Ugu DM	Unfunded	Unfunded	No change
6	uMshwathi	Funded	Funded	
7	uMngeni	Funded	Funded	
8	Mpofana	Unfunded	Unfunded	No change
9	iMpendle	Unfunded	Funded	Improved
10	Mkhambathini	Funded	Funded	
11	Richmond	Unfunded	Unfunded	No change
12	uMgungundlovu DM	Unfunded	Unfunded	No change
13	Okhahlamba	Funded	Funded	
14	iNkosi Langalibalele	Unfunded	Unfunded	No change
15	Alfred Duma	Funded	Funded	
16	uThukela DM	Unfunded	Unfunded	No change
17	eNdumeni	Unfunded	Unfunded	No change
18	Nquthu	Funded	Funded	
19	Msinga	Funded	Unfunded	Regressed
20	uMvoti	Unfunded	Funded	Improved
21	uMzinyathi DM	Unfunded	Unfunded	No change
22	Newcastle	Unfunded	Unfunded	No change
23	eMadlangeni	Unfunded	Funded	Improved
24	Dannhauser	Unfunded	Unfunded	No change
25	Amajuba DM	Unfunded	Unfunded	No change
26	eDumbe	Funded	Funded	
27	uPhongolo	Funded	Funded	
28	AbaQulusi	Funded	Funded	
29	Nongoma	Funded	Funded	
30	Ulundi	Unfunded	Unfunded	No change
31	Zululand DM	Unfunded	Unfunded	No change
32	uMhlabyalingana	Funded	Funded	
33	Jozini	Funded	Funded	
34	Mtubatuba	Unfunded	Funded	Improved
35	Big Five Hlabisa	Funded	Funded	
36	uMkhanyakude DM	Unfunded *	Unfunded	
37	uMfolozi	Funded	Funded	
38	uMlalazi	Funded	Funded	
39	Mthonjaneni	Funded	Funded	
40	Nkandla	Unfunded	Funded	Improved
41	King Cetshwayo DM	Funded	Funded	
42	Mandeni	Funded	Funded	
43	KwaDukuza	Funded	Funded	
44	Ndwedwe	Funded	Funded	
45	Maphumulo	Unfunded	Funded	Improved
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	No change

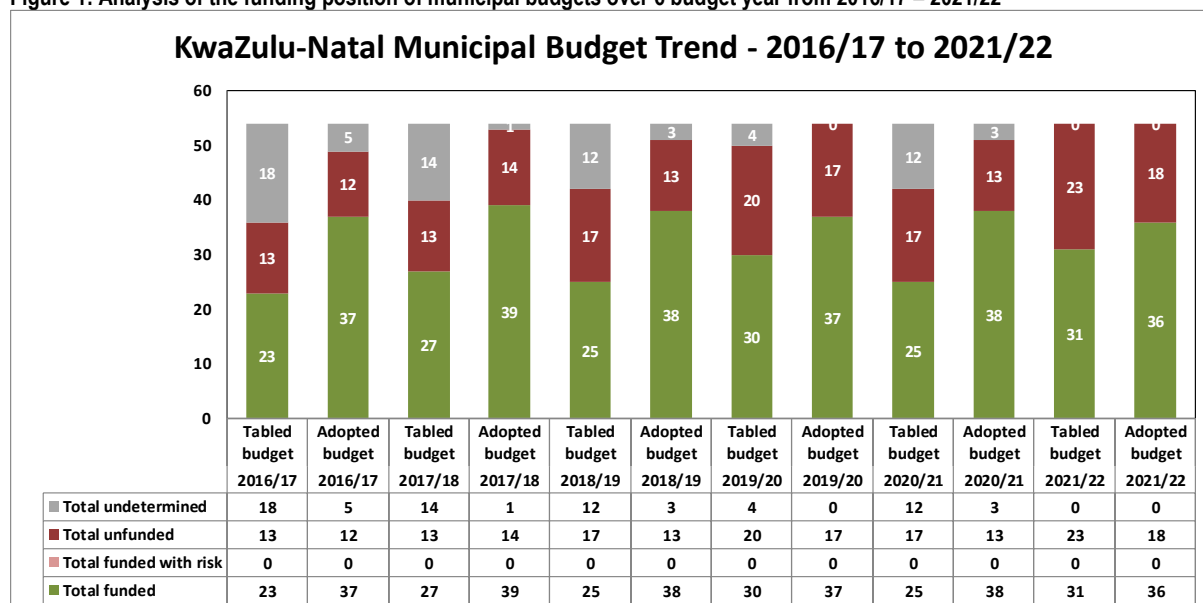
\* Provincial Treasury undertook a high level assessment of the municipality's data string for the Draft Budget (TABB) uploaded to the National Treasury Local Government (LG) Upload Portal

Source: KZN Provincial Treasury



Figure 1 shows the trend analysis of the funding position of all KZN municipalities over the last six (6) budget years (2016/17 – 2021/22).

Figure 1: Analysis of the funding position of municipal budgets over 6 budget year from 2016/17 – 2021/22



Note: The table and the graph above includes data for the non-delegated municipalities namely; the eThekweni Metro, the Msunduzi and the uMhlathuze Local Municipalities. National Treasury performed the budget assessments for the non-delegated municipalities.

## 5. 2021/22 BUDGET FUNDING PLANS ASSESSMENT PROCESS

### Provincial Treasury's support to municipalities with unfunded 2021/22 Approved Budgets

In order to 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, Provincial Treasury issued Circular PT/MF 04 of 2021/22 dated 31 August 2021 (Process of addressing the 2021/22 unfunded budget through the preparation of credible budget funding plan) to municipalities.

The purpose of circular was to:

- 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;
- Provide guidance and support to municipalities in the process of preparing or correcting the Budget funding plans, to ensure that they are credible;
- 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
- 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.

### Engagements between Provincial Treasury and municipalities with unfunded 2021/22 Approved Budgets

Provincial Treasury supported the 16 municipalities that approved the 2021/22 Unfunded Budgets in a bid to ensure that these municipalities table and approve credible Budget funding plans. The

municipalities that did not submit Budget funding plans were supported to develop Budget funding plans while those municipalities that had submitted Budget funding plans were supported to review their Budget funding plans and correct all issues raised by Provincial Treasury with a view of improving the level of credibility of the Budget funding plans. The support included bilateral engagements with the municipalities wherein Provincial Treasury provided detailed guidance on the preparation of the plan.

Initial engagements between Provincial Treasury with 15 of the affected municipalities were held between 02 September 2021 and 17 September 2021. The of engagement with Amajuba District Municipality which was held on 18 October 2021, due to unavailability of the municipality's management at the time. The purpose of these engagements were to discuss and agree on the process to be followed for the preparation and/or correction of the Budget funding plans and relevant timeframes. Table 11 reflects the dates on which the bilateral meetings were held with each of the affected municipalities.

**Table 11: Engagements between Provincial Treasury and municipalities with unfunded 2021/22 Approved Budgets**

No	Name of Municipality	Date of the engagement	No	Name of Municipality	Date of the engagement
1	Ugu DM	17-Sep-21	9	uMzinyathi DM	08-Sep-21
2	Mpofana	16-Sep-21	10	Newcastle	09-Sep-21
3	Richmond	15-Sep-21	11	Dannhauser	06-Sep-21
4	uMgungundlovu DM	16-Sep-21	12	Amajuba DM	18-Oct-21
5	iNkosi Langalibalele	07-Sep-21	13	Ulundi	08-Sep-21
6	uThukela DM	06-Sep-21	14	Zululand DM	02-Sep-21
7	eNdumeni	07-Sep-21	15	uMkhanyakude DM	13-Sep-21
8	uMsinga	02-Sep-21	16	Harry Gwala DM	08-Sep-21

Source: KZN Provincial Treasury

The following were some of the items discussed with municipalities at the engagement with a view of providing Technical Support:

- The findings on the 2021/22 Approved Budgets and/ or Budget funding plans that were previously communicated to the municipalities;
- Steps by step process to be undertaken by the municipality in order to ensure that their Budget funding plan is credible; and
- Municipalities were advised to table a Budget funding plans to Council indicating how and by when the budgets will improve from an unfunded to a funded position in line with guidelines of MFMA Circular No. 93.

The following were further agreed upon at the engagements:

- Municipalities must prepare draft Budget funding plans and submit them to Provincial Treasury for review prior to tabling in the Council;
- Further technical support must be provided by Provincial Treasury on an ongoing basis to monitor progress made by the municipalities in development or correction of the Budget funding plans;
- Municipalities must table their 2021/22 Budget funding plans in Council by 28 September 2021; and
- A copy of the approved Budget funding plan together with a copy of Council resolution and the progress report (where applicable) on the Budget funding plan must be submitted to National Treasury and Provincial Treasury by the municipality. The Council resolution must state that the council is committed to ensure that the budget of the municipality is funded.

## Tabling and approval of the Budget funding plan

The 2021/22 Budget funding plans were tabled and approved by Councils after the bi-lateral engagements between Provincial Treasury and the municipalities with the exception of the Amajuba District Municipality which had already approved its Budget funding plan on 31 August 2021. Table 12 below reflects the dates of the Council meetings wherein the 2021/22 Budget funding plans were approved.

**Table 12: Tabling and adoption of the Budget funding plans**

No	Name of Municipality	Date of the engagement	No	Name of Municipality	Date of the engagement
1	Ugu DM	23-Sep-21	9	uMzinyathi DM	27-Sep-21
2	Mpofana	29-Sep-21	10	Newcastle	26-May-21
3	Richmond	29-Sep-21	11	Dannhauser	29-Sep-21
4	uMgungundlovu DM	29-Sep-21	12	Amajuba DM	31-Aug-21
5	iNkosi Langaibalele	30-Sep-21	13	Ulundi	30-Sep-21
6	uThukela DM	28-Sep-21	14	Zululand DM	18-Oct-21
7	eNdumeni	01-Oct-21	15	uMkhanyakude DM	22-Oct-21
8	uMsinga	28-Sep-21	16	Harry Gwala DM	30-Sep-21

Source: KZN Provincial Treasury

## Outcome of the high level assessment of the Budget funding plans

MFMA Circular No. 93 acknowledged that a funded budget may not be achievable in one financial year and as a result, municipalities that could not have funded budgets in one financial year were required to table a Budget funding plan in Council indicating how and by when the budget will improve from an unfunded to a funded position.

Provincial Treasury assessed the Budget funding plans that were tabled in Council in terms of MFMA Circular No. 93 by municipalities with unfunded 2021/22 Approved Budgets. The outcome of the high level assessment of the Budget funding plans is reflected in the Table 13 below.

**Table 13: Outcome of the assessment of the Budget funding plans submitted to Provincial Treasury**

No	Name of Municipality	Original Budget Funding Plan Assessment	Developed or amended Budget funding plan submitted to PT	Developed or amended Budget funding plan Assessment
		Credible/ Not Credible / Did not submit	Yes/ No/ N/A	Credible/ Not Credible / In progress
1	Ugu DM	Not Credible	Yes	Credible
2	Mpofana	Not Credible	Yes	Credible
3	Richmond	Not Credible	Yes	Credible
4	uMgungundlovu DM	Not Credible	Yes	Credible
5	iNkosi Langaibalele	Not Credible	Yes	Credible
6	uThukela DM	Not Credible	Yes	Credible
7	eNdumeni	Did not submit	Yes	Credible
8	uMsinga	Did not submit	Yes	Credible
9	uMzinyathi DM	Did not submit	Yes	Credible
10	Newcastle	Credible	Yes	Credible
11	Dannhauser	Did not submit	Yes	Credible
12	Amajuba DM	Not Credible	Yes	Credible *
13	Ulundi	Not Credible	Yes	Credible **
14	Zululand DM	Not Credible	Yes	Credible
15	uMkhanyakude DM	Not Credible	Yes	Credible
16	Harry Gwala DM	Not Credible	Yes	Credible

\* The credible Budget funding plan still needs to be re-tabled in Council.

\*\* Credibility of the Budget Funding plan is subject to the approval of revised re-payment period by ESKOM.

Source: KZN Provincial Treasury

The uMzinga Local Municipality did not prepare a Budget funding plan as the municipality's 2021/22 Tabled (Draft) Budget was assessed by Provincial Treasury as funded, however their 2021/22 Approved Budget was assessed to be unfunded. Based on the outcome Tabled Budget, the Budget Funding Plan was not necessary, however based on the approved budget, the Budget funding plan became necessary. The eNdameni and Dannhauser Local Municipalities as well as the uMzinyathi District Municipality did not submit Budget funding plans, despite being advised by Provincial Treasury through the 2021/22 Tabled Budget feedback letters.

Provincial Treasury had various engagements with all municipalities that did not submit Budget funding plans or re-submitted the corrected Budget funding plans that were referred back to municipalities as Provincial Treasury assessed them not to be credible. The main purpose for engaging the municipalities were to assist the municipalities with the development or correction of their Budget funding plans and as a result thereof, the municipalities corrected their Budget funding plans until they are found to be credible by Provincial Treasury.

This included Amajuba District Municipality that was the last municipality to submit the credible Budget funding plan on 03 November 2021 after support and engagement by Provincial Treasury. The municipality has indicated that the revised Budget funding plan will be tabled at the next Council meeting.

## **6. 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;
- 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 Budget Steering Committee (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) and 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 that have unfunded 2021/22 Approved Budgets and credible Budget funding plans are required to report on the progress of the implementation of their Budget funding plans to Council, National Treasury and Provincial Treasury on a monthly basis;
- Municipalities must ensure that they table Provincial Treasury's budget assessment comments in their Councils and submit the resolutions to Provincial Treasury; and

- Municipalities must ensure that they take into consideration the guide provided by MFMA Circular No. 112 (Municipal Budget Circular for the 2022/23 MTREF), dated 06 December 2021, when preparing their 2022/23 MTREF budget.

Yours sincerely



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**Ms. N. Shezi**

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

**CC    Mayors  
      Deputy Mayors  
      Speakers  
      Administrators**