



KWAZULU-NATAL PROVINCE

TREASURY
REPUBLIC OF SOUTH AFRICA

DIRECTORATE: MUNICIPAL FINANCE MANAGEMENT

Private Bag X454, PIETERMARITZBURG, 3200
Moses Mabhida Building, 330 Langalibalele Street, Pietermaritzburg, 3200
Tel: 033 897 4541 Fax: 033 342 4662
Name: FARHAD CASSIMJEE
Email: farhad.cassimjee@kzntreasury.gov.za
Website: www.kzntreasury.gov.za

Ref: 11/6/13/6

30 September 2022

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

PROVINCIAL TREASURY CIRCULAR PT/MF 04 OF 2022/23

PROCESS FOR ADDRESSING THE 2022/23 UNFUNDED BUDGETS THROUGH THE PREPARATION OF CREDIBLE BUDGET FUNDING PLANS AND THROUGH THE PREPARATION AND SUBMISSION OF MONTHLY PROGRESS REPORTS THEREON

The objectives of this circular are:

- To inform municipalities whose 2022/23 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;
- To provide guidance and support to municipalities in the process of preparing and/or correcting their Budget funding plans to ensure that they are credible;
- To outline the Schedule of key dates to be met by the municipalities in their preparation and/or correction of their Budget funding plans;
- To remind municipalities that previously approved Budget funding plans to submit monthly progress reports on the implementation of the Budget funding plans to Council, and the National and Provincial Treasury; and
- To share the standard Budget funding plan monthly progress reporting template developed by Provincial Treasury as well as the submission guidelines thereof with municipalities.

Background

Section 18 of the Municipal Finance Management Act, Act 56 of 2003 (MFMA) states that an Annual Budget may only be funded from realistically anticipated revenue to be collected, cash backed accumulated funds from previous years' surpluses not committed for other purposes and borrowed funds, but only for the capital budget. MFMA Circular No. 93, required municipalities with unfunded budgets to develop credible Budget funding plans which show how and by when the Medium Term Revenue and Expenditure Framework (MTREF) budgets of the municipalities would be funded if funded budgets were not achievable in one financial year. Municipalities are also required by MFMA Circular No. 112 to table these plans together with their 2022/23 Annual Budgets for approval by Council, where applicable.



According to the outcome of Provincial Treasury's assessment of the 2022/23 Approved Budgets, there are seven (7) delegated municipalities that approved unfunded Annual Budgets for the 2022/23 financial year. In compliance with MFMA Circulars No. 93 and 112, these municipalities prepared Budget funding plans, which were approved by their respective municipal Councils, indicating how and by when the MTREF budgets of the municipalities will be funded. All seven (7) municipalities with unfunded budgets submitted Budget funding plans to Provincial Treasury however upon assessment thereof, some of the Budget funding plans were found as not credible. As a result, the affected municipalities are required to review their Budget funding plans and work closely with their designated Provincial Treasury Municipal Budget Analyst to correct and improve the credibility of their Budget funding plans.

National Treasury indicated in MFMA Circular No. 112 that the criteria for the release of the Equitable share installments for the 2022/23 financial year includes municipalities complying with Section 18 of the MFMA and adopting funded budgets. The circular further requires that should a municipality adopt an unfunded budget, then the municipality must also approve a credible Budget funding plan showing how the municipality intends to move progressively out of an unfunded position into a funded state. A Council resolution showing commitment to the Budget funding plan to address the unfunded position is also required. The requirements of MFMA Circular No. 112 are in line with Section 216(2) of the Constitution of South Africa that requires National Treasury to enforce compliance with the measures established to ensure both transparency and expenditure control in each sphere of government 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.

Discussion

A. Budget Funding Plans

On 31 August 2021, Provincial Treasury issued Circular PT/MF 04 of 2021/22 to provide guidance to municipalities on the preparation of Budget funding plans. The same circular required all municipalities with approved Budget funding plans to submit monthly progress reports on the implementation of the plan to Provincial Treasury in order for Provincial Treasury to assess the progress thereon and advise municipalities accordingly. A National Treasury Framework (Framework) to assist in developing a funding plan/strategy for municipalities to improve their unfunded budget positions was also shared with municipalities.

The Framework stipulated that the Budget funding plans must clearly indicate how the municipality would move from an unfunded budget position to a funded budget position including the timeframes thereof. Furthermore, the Framework required that the timeframes and targets must be included in the Budget funding plan and must be monitored on a monthly basis by the relevant oversight structures within the municipality as well as the relevant Provincial and National Treasury.

The Framework did not prescribe the structure for the contents of a Budget funding plan and as a result, the contents of the Budget funding plans are unique to each municipality. Notwithstanding this, the Framework recommended that the contents for all Budget funding plans must be structured in accordance with the five pillars which are used for the preparation of the Financial recovery plans for municipalities under intervention in terms of Section 139(5) of the Constitution of South Africa. In particular, the Budget funding plan must correspond to the rescue phase of the new approach to Municipal Financial Recovery Service (MFRS). The Financial recovery plans are largely prepared for municipalities under financial distress and it is for this purpose that the pillars of the framework of the Budget funding plans must be aligned to the indicators in the Financial recovery plans. The Framework required that the contents of the Budget funding plans should therefore be structured in accordance with the following pillars:

- Positive cash flows with a focus on revenue from trading services;



- Implementation of cost containment measures and a reduction of expenditure;
- Realistic debtors' collection rates with incremental improvements year on year;
- Creditors payment rates that ensure that all fixed obligations, including obligations for bulk purchases, are met; and
- Ring fencing of conditional grants and ensuring that conditional grant funding is cash backed.

Municipalities must further consider the following aspects within the above mentioned five pillars when correcting their Budget funding plans:

- 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;
- 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 should be used for the repayment of arrear obligations;
- Make adjustments to or completely remove internal contributions to the capital programme in line with affordability;
- A cash flow which presents a positive Cash and cash equivalents balance at year-end on Table A7 for the current year, including fixed cost obligations as per approved payment plans with Eskom and Water Boards; and
- Use the 2021/22 pre-audit Annual Financial Statements (AFS) figures as the baseline for the Budget funding plans.

B. Monthly Reporting of the Budget funding plans

The national Technical Committee for Finance (TCF) resolved that Councils for municipalities with unfunded budgets must monitor the progress on the implementation of the approved Budget funding plans on a monthly basis to ensure that the objectives of the plan are achieved. Furthermore, the TCF also resolved that the reports on the implementation of the Budget funding plans should be submitted to Provincial Treasury on a monthly basis in addition to the monthly reporting required by Section 71 of the MFMA.

This decision was reiterated in National Treasury MFMA Circular No 112 wherein municipalities with unfunded budgets were required to, amongst other requirements, submit a monthly progress report in accordance with the Framework which is aligned to the rescue phase of the new approach to MFRS to guide municipalities.

The KZN Provincial Cabinet Lekgotla held on 18 February 2022 endorsed the decision of the TCF and the Provincial Executive Council (Provincial Cabinet) approved this decision on 18 May 2022. As a result, all municipalities that have approved unfunded 2022/23 Annual Budgets with Budget funding plans are required to submit a monthly progress report on the implementation of their Budget funding plans to Council as well as to the Provincial Treasury for monitoring.



C. Budget Funding Plan Monthly reporting template

All municipalities with unfunded 2022/23 Approved Budgets and approved credible Budget funding plans are required to report on the progress of the plans on a monthly basis to Council and the Provincial and National Treasury. Provincial Treasury provided a Budget funding plan template as an annexure to Provincial Treasury Circular PT/MF 10 of 2021_22 on 09 March 2022 to be used by municipalities that could not table a funded budget for the 2022/23 budget year. The Budget funding plan monthly progress report template (Template) included in this Circular as Annexure A, is based on the original Budget funding plan template that was sent to municipalities in March 2022.

The Template requires “status and percentage” in column H and “comments regarding the status and progress related to activities” in column I which must be used to report on the progress of each key activity on a monthly basis. The red, yellow and green faces must be copied and pasted in column H to indicate the correct level of achievement of each key activity. Reasons for the current status, especially where there may be a lack of progress, as well as comments that enhance the understanding of the reported information should also be included where necessary.

The Template should be prepared by the Chief Financial Officer (CFO) and approved by the Municipal Manager (MM) before being tabled to Council or being submitted to Provincial Treasury.

The monthly progress reports must be submitted on a monthly basis to:

- The relevant oversight structures and municipal Council for monitoring and oversight; and
- Provincial Treasury for evaluation and oversight;

The relevant Council resolution must also be submitted to Provincial Treasury no later than five (5) working days after the Council meeting at which the monthly progress report was tabled.

D. Way Forward

All municipalities with unfunded 2022/23 Approved Budgets that **have not approved credible Budget funding plans** must prepare and approve credible Budget funding plans that indicate how and by when the municipalities’ budget will be funded. The municipal Councils should also adopt a clear process of their intention to address the unfunded budget during the upcoming main 2022/23 Adjustments Budget period. Municipalities must note that National Treasury indicated that consequence management will be implemented for all municipalities that approve unfunded budgets consistently for more than three (3) years. Furthermore, these municipalities must also report to their Councils, as well as National and Provincial Treasury on the implementation of the Budget funding plans on a monthly basis.

The TCF 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 follows between the period of 26 September 2022 to 07 December 2022:

a) 26 September 2022 to 30 September 2022

- 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;

b) 03 October 2022 to 21 October 2022

- The designated Provincial Treasury Municipal Budget Analyst will contact the municipality to arrange an appointment date for engagements;



KWAZULU-NATAL PROVINCE

TREASURY
REPUBLIC OF SOUTH AFRICA

- 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 Provincial Treasury Municipal Budget Analyst 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 October 2022 (or on an earlier date as agreed between the municipality and Provincial Treasury) for review and comments;
 - Provincial Treasury will engage with 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 plan and the plan is found to be credible, the plan can be tabled to Council for approval;
 - **The developed and/or reviewed Budget funding plan must be approved on or before 21 October 2022 by the Council;**
 - **Budget funding plans must be submitted to the Provincial 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 advise accordingly.
- c) 24 October 2022 to 28 October 2022**
- A copy of the approved reworked Budget funding plan together with a copy of the Council resolution and the monthly progress report on the Budget funding plan must be submitted to National and Provincial Treasury by the municipality by 28 October 2022.
- d) 31 October 2022 to 11 November 2022**
- A second letter will be sent by National Treasury to the municipalities that do not comply with the process outlined above.
- e) 14 November 2022 to 18 November 2022**
- National Treasury will inform the grant management teams of the names of municipalities for which to withhold their Equitable share due to non-compliance including amongst others the outcome of this process.
- f) 21 November 2022**
- National Treasury will send letters to those municipalities that failed to comply with 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 approves a credible Budget funding plan.



KWAZULU-NATAL PROVINCE

TREASURY
REPUBLIC OF SOUTH AFRICA

g) 07 December 2022

- Release of Equitable share allocation by National Treasury or stopping thereof to non-compliant municipalities in accordance with National Treasury's letter to be issued on 21 November 2022.

Yours sincerely

A handwritten signature in black ink, appearing to read 'C. Coetzee'.

Ms. C. Coetzee

Head of Department

KwaZulu-Natal (KZN) Provincial Treasury

CC Mayors

Ms. N. P. Nkonyeni – KZN MEC for Finance

Mr. J. Hattingh - National Treasury

Mr. T.V. Pillay - National Treasury

Ms. N. Mkhize - KZN Business Unit Leader (Auditor General)

Administrators