



KWAZULU-NATAL PROVINCE

TREASURY
REPUBLIC OF SOUTH AFRICA

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Date: 12 September 2023

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

PROVINCIAL TREASURY CIRCULAR PT/MF 04 OF 2023/24

PROCESS OF ADDRESSING UNFUNDED 2023/24 APPROVED BUDGETS THROUGH THE PREPARATION OF A CREDIBLE BUDGET FUNDING PLANS AND THE PREPARATION AND SUBMISSION OF MONTHLY PROGRESS REPORTS

The objectives of this circular are to:

- Remind municipalities whose 2023/24 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 further guidance and support to municipalities in the process of preparing and/or correcting the Budget funding plans to ensure that they are credible;
- Remind municipalities that approved credible Budget funding plans previously to submit a monthly progress report on the implementation of the Budget funding plan to Council, National and Provincial Treasuries; and
- Recirculate the standard Budget funding plan monthly progress report template 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 and subsequent MFMA Municipal Budget Circulars 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. Furthermore, MFMA Circular No. 122 required municipalities to table these plans together with their 2023/24 Annual Budgets for approval by Council where applicable.



According to the outcome of Provincial Treasury’s assessment of the 2023/24 Approved Budgets, there were eight (8) delegated municipalities that approved unfunded Annual Budgets for the 2023/24 financial year as listed in Table 1. In compliance with MFMA Circulars No. 93 and subsequent MFMA Municipal Budget Circulars, six (6) of these municipalities prepared Budget funding plans that were approved by their respective municipal Councils indicating how and by when the MTREF budgets of the municipalities will be funded. Upon the assessment of the six (6) Budget funding plans by Provincial Treasury, it was concerning to note that only three (3) municipalities had credible Budget funding plans. The remaining three (3) municipalities must review their Budget funding plans and re-table these plans in Council.

Table 1: Municipalities with unfunded 2023/24 Approved Budgets

No	Name of municipality	Approved Budget Funding Position	Budget Funding Plan approved by Council and submitted to PT	PT Assessment of Credibility of Budget Funding Plan	Council approval of reviewed Budget Funding Plan required
1	Mpofana	Unfunded	Yes	Credible	N/A
2	Newcastle	Unfunded	Yes	Credible	N/A
3	Ulundi	Unfunded	Yes	Credible	N/A
4	uThukela DM	Unfunded	Yes	Not credible	Yes
5	eNdumeni	Unfunded	Yes	Not credible	Yes
6	uMzinyathi DM	Unfunded	Yes	Not credible	Yes
7	eMadlangeni	Unfunded	No	N/A	Yes
8	Amajuba DM	Unfunded	No	N/A	Yes
Total non-compliant municipalities		8	6	3	5

Source: KZN Provincial Treasury

The two municipalities with unfunded 2023/24 Approved Budgets and that did not table Budget funding plans together with their budgets must comply with MFMA Circular No. 93 and subsequent MFMA Municipal Budget Circulars and prepare Budget funding plans and table these plans to Council.

Compliance with Section 18 of the MFMA is listed as one of criteria that municipalities have to meet for the release of the Equitable share instalments for the 2023/24 financial year as per MFMA Circular No. 122 and 123. As per MFMA Circular No. 122, municipalities with unfunded 2023/24 Approved Budgets are required to approve a Budget funding plan showing how the municipality intends to move progressively out of an unfunded position into a funded position. A Council resolution showing commitment to the Budget funding plan to address the unfunded position is also required.

Withholding of Equitable share is 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

Provincial Treasury issued Circular PT/MF 04 of 2022/23 on 31 August 2021 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 position to a funded 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 Treasuries and the 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 inclusion of high-level governance and service delivery indicators focused on visible wins;
- The inclusion of appropriate strategic financial indicators;
- Focus on improving the budgeted cash position and short term liquidity;
- Measurable indicators;
- Realistic anticipated revenue. The collection rate must be prudent considering current economic trends;
- Reduction of the Operating expenditure budget (Table A4) in line with the realistic anticipated receipts related to the Operating revenue budget;



- A gradual improvement of Operating surpluses that will be used for the repayment of arrear obligations;
- Adjustment of internal contributions to the capital programme in line with affordability or removal of internal contributions to the capital programme 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); and
- The audited 2021/22 Annual Financial Statements (AFS) figures being used as the baseline for the Budget funding plans for plans that are tabled and approved by Council before 31 August 2023 and the pre-audited 2022/23 AFS figures being used as the baseline for the plans that are tabled and approved by Council after 31 August 2023.

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 Section 71 reporting required by the MFMA.

This decision was reiterated in National Treasury MFMA Circular No. 122 wherein municipalities with unfunded budgets were required to 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.

Municipalities that have approved unfunded 2023/24 Approved 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 for monitoring. Furthermore, the municipalities with unfunded 2023/24 Approved Budgets that did not prepare Budget funding plans are also required to submit monthly progress reports to Council and Provincial Treasury once these plans are approved by Council. Failure to submit the monthly progress reports to Council and Provincial Treasury will place the municipalities' Equitable share tranche at risk as monthly progress reports on the Budget funding plan forms part of the criteria for the release of the Equitable share instalments for the 2023/24 financial year by National Treasury as per MFMA Circulars No. 122 and 123.

Way Forward

All municipalities with unfunded 2023/24 Approved Budgets that have not approved credible Budget funding plans must prepare, table and approve credible Budget funding plans that clearly indicate how and by when the municipalities' budget will be funded **by no later than 30 September 2023**. Thereafter, the respective municipalities are required to submit their Council resolutions position to the National and Provincial Treasuries approving the Budget funding plans and showing commitment to address the unfunded budget. A Budget funding plan template has once again been included as an Annexure to this Circular (PT-MF 04 of 2023/24) to be used by municipalities that did not table a funded budget for the 2023/24 budget year. Furthermore, these municipalities must also report to their Councils as well as the National and Provincial Treasuries on the implementation of the Budget funding plans on a monthly basis.

The Budget funding plan template should be prepared by the Chief Financial Officer (CFO) and approved by the Municipal Manager (MM) before being tabled to Council and submitted to the National and Provincial Treasuries. The Budget funding plan template requires that the status and percentage



KWAZULU-NATAL PROVINCE

TREASURY
REPUBLIC OF SOUTH AFRICA

completion on the progress of each key activity be reported on a monthly basis. 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 monthly progress reports must be submitted as follows:

- To the relevant oversight structures and municipal Council for monitoring and oversight.
- To Provincial Treasury with the relevant Council resolution no later than 5 working days after the Council meeting at which the monthly progress report was tabled.

Kind regards

A handwritten signature in cursive script, appearing to read 'C. Coetzee'.

Ms. C. Coetzee
Head of Department: KZN Provincial Treasury

CC **Mayors**
 Deputy Mayors
 Speakers
 Ministerial Representatives
 Ms. N. P. Nkonyeni – KZN MEC for Finance
 Mr. J. Hattingh – National Treasury
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