



## KWAZULU-NATAL PROVINCE

TREASURY  
REPUBLIC OF SOUTH AFRICA

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Reference: 11/6/13/6  
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Date: 12 September 2024

TO: MUNICIPAL MANAGERS  
CHIEF FINANCIAL OFFICERS  
KWAZULU-NATAL MUNICIPALITIES

### PROVINCIAL TREASURY CIRCULAR PT/MF 04 OF 2024/25

#### **GUIDANCE ON THE PROCESS OF ADDRESSING UNFUNDED 2024/25 APPROVED BUDGETS THROUGH THE PREPARATION OF A CREDIBLE BUDGET FUNDING PLAN AND THE PREPARATION AND SUBMISSION OF MONTHLY PROGRESS REPORTS**

The objectives of this circular are to:

- Remind municipalities whose 2024/25 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 and/or correcting their Budget funding plans to ensure that they are credible;
- Remind **all** municipalities with approved Budget funding plans 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. 89 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 Annual Budgets for approval by Council where applicable, whilst MFMA Circular No. 126 further requires that municipalities must adopt a credible funding plan in cases where the 2024/25 Annual Budget is unfunded (**as an unfunded budget is not encouraged**).



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According to the outcome of Provincial Treasury's assessment of the 2024/25 Approved Budgets, there were six (6) municipalities that approved unfunded Annual Budgets for the 2024/25 financial year as listed in Table 1. In compliance with MFMA Circulars No. 89 and subsequent MFMA Municipal Budget Circulars, all six (6) 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 Budget funding plans by Provincial Treasury, it was concerning to note that only two (2) municipalities approved credible Budget funding plans. The remaining four (4) municipalities must revise and update their Budget funding plans and re-table these plans in Council.

**Table 1: Municipalities with unfunded 2024/25 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	uThukela DM	Unfunded	Yes	Credible	N/A
3	eNdumeni	Unfunded	Yes	Not credible	Yes
4	uMzinyathi DM	Unfunded	Yes	Not credible	Yes
5	eMadlangeni	Unfunded	Yes	Not credible	Yes
6	Ulundi	Unfunded	Yes	Not credible	Yes
<b>Total non-compliant municipalities</b>		<b>6</b>	<b>6</b>	<b>2</b>	<b>4</b>

Source: KZN Provincial Treasury

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 2024/25 financial year as per MFMA Circular No. 122 and subsequent MFMA Municipal Budget Circulars. As per MFMA Circular No. 126, municipalities with 2024/25 Approved Budget funding plans that lack credibility are required to correct the Budget funding plan and ensure that it is credible. The credible Budget funding plan must be immediately adopted by the Municipal Council and the changes to the budget must be effected in the 2024/25 Main Adjustments Budget. The Budget funding plan **must** show progressive improvement in the funding of the budget.

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

### 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 2022/23 Annual Financial Statements (AFS) figures were used as the baseline for the Budget funding plans that were tabled and approved by Council before 31 August 2024 and the pre-audited 2023/24 (AFS) figures must be used as the baseline for the plans that are tabled and approved by Council after 31 August 2024.



## **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 2024/25 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.

## **Way Forward**

All municipalities with 2024/25 Approved Budget funding plans that lack credibility are required to correct the Budget funding plan and ensure that it is credible. The credible Budget funding plan must be adopted by Council by no later than 30 September 2024 and the changes to the budget must be effected in the Mid-year Adjustments Budget to ensure compliance with Section 18 of the MFMA. The Budget funding plan **must** show progressive improvement in the funding of the budget. 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.

The corrected Budget funding plan 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 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.

Failure to submit a corrected 2024/25 Council Approved Budget funding plan as well as 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 2024/25 financial year by National Treasury as per MFMA Circulars No. 122 and subsequent MFMA Municipal Budget Circulars.



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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 black ink, appearing to read 'C. Coetzee'.

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**Ms. C. Coetzee**

**Head of Department: KwaZulu-Natal (KZN) Provincial Treasury**

**CC Mayors**

**Deputy Mayors**

**Speakers**

**Ministerial Representatives**

**Mr. F. A. Rodgers – KZN MEC for Finance**

**Mr. J. Hattingh – National Treasury**

**Mr. W. McComans – National Treasury**

**Ms. N. Mkhize – KZN –Auditor General**