

**Addendum 2 to MFMA Circular No. 88****Municipal Finance Management Act No. 56 of 2003**

## **Rationalisation of Planning, Budgeting and Reporting Requirements for the 2021/22 MTREF: Addendum 2**

This circular provides an update to all municipalities on the preparation of statutory planning and reporting documents required for the 2021/22 Medium Term Revenue and Expenditure Framework (MTREF). It is for the attention of all municipalities and **for the first time applies to all categories of municipalities.**

### **Contents**

|          |  |           |
|----------|--|-----------|
| <b>1</b> | <b><i>Introduction</i></b> .....   | <b>1</b>  |
| <b>2</b> | <b><i>Planning and budgeting reforms and guidance</i></b> .....                  | <b>2</b>  |
| <b>3</b> | <b><i>Expanding and revising the indicator set</i></b> .....                     | <b>7</b>  |
| 3.1      | Clarifying and expanding ‘compliance’ indicators.....                            | 7         |
| 3.2      | Introducing new sector indicators .....  | 7         |
| 3.3      | Expansion and revision of indicators .....                                       | 8         |
| 3.4      | Rationalisation of reporting in practice .....                                   | 9         |
| <b>4</b> | <b><i>Rolling out the reform to other categories of municipalities</i></b> ..... | <b>9</b>  |
| 4.1      | Special pilot provisions for rollout across local government .....               | 10        |
| <b>5</b> | <b><i>Evaluations</i></b> .....  | <b>12</b> |
| 5.1      | Institutionalising evaluation in the local government sphere .....               | 13        |
| <b>6</b> | <b><i>Conclusion</i></b> .....   | <b>13</b> |

## **1 Introduction**

The Municipal Finance Management Act (MFMA) Circular No. 88 of November 2017 provided guidance to metropolitan municipalities on a common set of performance indicators applied from the 2018/19 planning and reporting cycle onwards. The 1<sup>st</sup> addendum to Circular No. 88 of 4 December 2019 provided further guidance and clarity to metropolitan municipalities on the preparation of statutory planning and reporting documents required for the 2020/21 Medium Term Revenue and Expenditure Framework (MTREF). Both were for the attention of all municipalities, while the indicators only applied to metropolitan municipalities.

Experience since the 2018/19 implementation of the original circular has shown that the ongoing planning, budgeting and reporting reforms process is complex and requires sufficient time and change management for incremental roll-out, growth and institutionalisation. Addendum 2 introduces a significant shift in the reforms in four respects: 1) it more closely integrates and guides planning, budgeting and reporting reforms; 2) it significantly expands and revises the set of MFMA Circular No. 88 indicators applicable to metropolitan municipalities; 3) it expands the application of the reforms and the indicators to differential

categories of municipalities and levels of readiness, for application in 2021/22 MTREF cycle going forward; and 4) it introduces evaluations in the context of these reforms.

Improved planning by itself will not result in the intended spatial, economic and social transformation. Strengthening the linkages across a holistic cycle of planning, budgeting, reporting and evaluation is much more likely to. Intergovernmental spatial planning and intergovernmental budgeting via an intergovernmental programme and project pipeline is a good starting point in this regard, as the interdependencies bring with them complexity, but also a mutual reinforcement that strengthens with the endurance of commitments over time and space. Therefore, as the urban spatial perspective in the budgeting process moves from introduction to refinement and establishment/institutionalization; as budget information is requested, collated and analysed in a way that promotes the allocation of funding against plans that contributes directly to the spatial transformation of our cities, the increase in the planning and budgeting horizons from 3 to 5, 10, 15 and 20 years carries with them greater promise and certainty of progress. But in order to do this, it will require the simultaneous improvement of the longer-term municipal planning frameworks such as Municipal Spatial Development Frameworks (MSDFs), City Development Strategies (CDSs) and longer-term sector strategies; any legislative, policy or regulatory changes; and the development of a spatial budgeting mix linked to infrastructure asset management and spatial plans of the cities.

Improved budgeting/fiscal/financial reforms such as the introduction of the Municipal Standard Chart of Accounts (*mSCOA*), the policy framework for development charges, the municipal borrowing framework and long-term financial models and strategies will not by themselves result in spatial, economic and social transformation in cities. Neither would reporting reforms by itself result in spatial, economic and social transformation, or evaluations for that matter. If all reforms, and particularly planning, budgeting/fiscal/financial and reporting reforms are strategically aligned, then the likelihood of achieving spatial, economic and social transformation in cities will be greatly increased.

MFMA Circular 88 on Rationalising Planning and Reporting Requirement, first issued on 30 November 2017 and the subsequent update Addenda in 2019, generally focused on the implementation of reporting reforms. This Addendum update issued on 17 December 2020 includes the work to date on planning and budgeting reforms to be factored into municipal planning, budgeting and reporting for the 2021/22 MTREF. The reforms will continue being incrementally implemented in the 2022/23 - 2025-26 MTREF, and apply on a differentiated basis per municipal category, first in metropolitan municipalities, and then to intermediate city municipalities, districts and all remaining municipalities.

## **2 Planning and budgeting reforms and guidance**

Planning reforms were started in the 2014/15 MTREF through the introduction of Built Environment Performance Plans (BEPPs) as a requirement of the annual Division of Revenue Act (DORA). The planning reform programme is a collaborative initiative between the Departments of Cooperative Governance (DCoG); Agriculture, Land Reform and Rural Development (DALRRD then Rural Development and Land Reform); Department of Planning, Monitoring and Evaluation (DPME); and National Treasury (NT) Cities Support Programme (CSP) that focuses on the eight metropolitan municipalities. Once reforms are tried and tested, they are then differentially applicable to the next category of municipalities, that is intermediate city municipalities and the remaining local municipalities.

### **A tool for reforming planning, budgeting and reporting**

For the time of its existence the Built Environment Performance Plans (BEPPs) were an additional planning instrument in the municipal planning system that spanned budgeting and reporting. It was an instrument of change for a limited time period, not a permanent addition to

the range of municipal planning instruments, and it thus ceases to exist in the 2021/22 MTREF and further. However, the lessons learnt from the BEPPs and other planning reforms will continue by being introduced into the existing municipal planning, budgeting and reporting instruments, processes, content and practice. In summary, the lessons learnt are: -

1. Outcomes-Led Planning (OLP) and spatial targeting should be the key approach for all relevant metropolitan plans such as the Growth and Development Strategy/City Development Strategy (GDS/CDS); MSDF; longer term sector strategies; City Infrastructure Delivery Management System (CIDMS); Long Term Financial Model and Strategy (LTF Model and Strategy), and last but not least the IDP. There is a need to move away from compliance-driven planning to integrated, results-based planning;
2. Strategy-Led Budgeting (SLB) ensures that scarce financial resources are aligned to the key priority outcomes in the municipality; and
3. Using spatial targeting to Influence and incorporate the relevant provincial, national and state-owned enterprise plans and budgets into municipal spatially targeted areas enables all of government to focus on contributing to outcomes and impact.

### **Institutionalisation of planning, budgeting and reporting reforms**

All metros made commitments to institutionalising their BEPPs and planning, budgeting and reporting reforms during the Annual Assessment of BEPPs and City Plans in 2020. These commitments will be monitored in the 2021/22 MTREF plans and budgets – key content and process from the planning reforms that should be in the 2021/22 IDP are the Intergovernmental Programme Pipeline and Catalytic Land Development Programmes (previously Annexure 2 and 1 of the BEPPs respectively) that should be brought into the IDP.

Translating the lessons learnt into practical activities and outputs requires that we focus on the following going forward until it is successfully institutionalised: -

- a) **Planning Approach:** The planning approach is outcomes-led, using predetermined outcomes that can be measure the performance of the built environment, to inform the planning process. Transit-oriented development and spatial targeting are key planning concepts that drive the outcomes-led approach and inform the budgeting process;
- b) **Planning Content:** The planning content is the substance of the plan and the related key outputs of the plan e.g. Catalytic Land Development Programmes; the Intergovernmental Programme Pipeline; budgeting that is led by the planning strategy and outcomes; and results on the performance of the built environment;
- c) **Planning Practice:** Planning practice is about the professional agency of planners and related built environment practitioners, municipal financial practitioners including monitoring and reporting practitioners; and
- d) **Planning Process:** The planning process is the collective activities that constitute the Built Environment Value Chain (BEVC), a standardised, logical set of interactive and iterative activities that should result in a well performing built environment that produces the outcome of a compact city that is more inclusive, productive, resilient and sustainable and thus better governed. The process includes intergovernmental planning and budgeting, that is across the spheres of government and including the communities/households and the private sector investment in the built environment.

The planning reforms are being worked into oversight, monitoring and evaluation processes by setting out the criteria in Table 1 to assess the extent to which longer-term frameworks and strategies as well as the IDP incorporates planning reforms. Note that this criteria is an addition to criteria set by the relevant sector departments to assess the plans, and has been tested during 2020 in the process of the independent assessment of city plans.

Support will be provided to all stakeholders in order that the planning reforms outlined above are successfully implemented and institutionalised. The BEPPs Guidelines will be turned into a toolkit for outcomes-led planning and spatial targeting to provide technical guidance for both

longer-term and term-of-office planning. Existing and new knowledge products provide another form of support, as does technical support from the Cities Support Programme. Work has started on bringing professional institutes on board to promote continuing professional development for municipal finance, planning and engineering officials. Specialist capacity building and training institutions such as Municipal Institute of Learning (MILE) and the Tshwane Leadership and Management Academy are being engaged to do training and capacity building. Tertiary education institutions are being approached to factor in the planning reforms into curriculum development.

**Table 1: Criteria to assess incorporation of planning, budgeting and reporting reforms in city plans**

| Criteria   | Focus of assessment   |
|--|---|
| 1. Theory of Change for City Transformation <sup>1</sup>   | <ul style="list-style-type: none"> <li>Evidence of a clear TOC to address city transformation in line with national policy directives – SPLUMA &amp; IUDF</li> <li>Evidence of alignment with TOC in all plans and budget</li> </ul>  |
| 2. Outcomes-Led Planning and Spatial Targeting <sup>2</sup>  | <ul style="list-style-type: none"> <li>Have outcome statements been used to directly influence planning?</li> <li>Has the circle been closed by adopting the Circular 88 indicators?</li> <li>Are the spatially targeted areas clearly evident from frameworks through to strategies and implementation plans?</li> </ul>   |
| 3. Strategy-Led Budgeting <sup>3</sup>   | <ul style="list-style-type: none"> <li>Is there a longer-term financing strategy to resource the CIDMS?</li> <li>Is the budget spatialized?</li> <li>Has <i>m</i>SCOA been implemented?</li> </ul>  |
| 4. Alignment of Public Infrastructure Investment in spatially targeted areas in metros (Annexure 2 and Part C of BEPPs) – process and outputs <sup>4</sup> | <ul style="list-style-type: none"> <li>Has the city managed to get intergovernmental stakeholders to disclose their Programmes and related Budgets?</li> <li>Is the evidence that here is a move from disclosure to joint planning?</li> <li>What is the extent of alignment of intergovernmental planning and budgeting?</li> </ul>  |
| 5. Adoption of spatial planning, prioritisation and budgeting tools <sup>5</sup>   | <ul style="list-style-type: none"> <li>Does the city have a process or system/tool in place to filter programmes and projects submitted for approval?</li> <li>What criteria does the city use to approve projects for funding and Implementation?</li> <li>Does the city distinguish between priority programmes and projects?</li> <li>Do priority programmes and projects have a greater weighting than others?</li> </ul> |
| 6. Does the city have longer term frameworks and strategies in comparison to the term-of-Office plan (IDP) or 5-year plans?                                | <ul style="list-style-type: none"> <li>Does the city have a SDF and/or CDS/GDS?</li> <li>Are there longer-term sector strategies for Human Settlements, Public Transport, Economic Development, Climate Resilience, Financial Sustainability, Infrastructure Asset Management</li> </ul>  |

### **New metropolitan specific IDP Guideline and Assessment Framework**

The new metropolitan specific IDP Guideline and complementary metropolitan specific IDP Assessment Framework incorporate the lessons learnt from the BEPPs and planning, budgeting and reporting reforms. These will come into effect for the 2022/23 MTREF once signed by the Minister of Cooperative Governance. The IDP has been confirmed as the term-of-office plan by DCoG.

### **Longer-Term Intergovernmental Planning and Budgeting**

Having institutionalised many of the planning, budgeting and reporting reforms in the IDP for the term-of-office planning, attention is now focused on reforming longer-term planning - while this work is ongoing into 2021 there are clear indications already as outlined below. It is noted that besides the National Development Plan (NDP), longer term planning is not common

practice in government - national sector departments are required to produce 5 year Strategic and Performance Plans aligned to the Medium Term Strategic Framework (MTSF) with the process for the Annual Performance Plan (APP) being focused on annual plans in the context of 3 year rolling plans and budgets and M&E focused on annual performance. While the annual local government planning and budgeting process includes “all of government stakeholders” (provincial, national and SOE), very few of the provincial, national and SOE processes includes municipalities. This situation makes joint planning a very challenging activity unless reforms for national, provincial and SOE planning are implemented as soon as possible. Some strides have been made with particular departments or functions over the last few years as evidenced in Annexure 2 of the BEPPs on the Intergovernmental Programme and Project Pipeline.

### **Municipal Spatial Development Frameworks and City Development Strategies/Growth and Development Strategies**

Metropolitan municipalities on the other hand have a tradition of planning for the longer term with metropolitan spatial development frameworks (MSDFs) always based on at least a 10-year time horizon. Furthermore, metropolitan municipalities worked together with the SACN many years ago to develop their GDS/CDS e.g. Joburg 2040 and Tshwane 2055. While the GDS/CDS is not a legislative requirement, it has been established as good practice and critical to informing the term-of-office planning.

### **City Infrastructure Delivery Management System and Longer-Term Financial Model and Strategy**

All metropolitan municipalities have started implementing the CIDMS and related Framework for Infrastructure Delivery and Procurement Management (FIDPM) and the complementary LTF Model and Strategy, which if correctly implemented should span a 40-year time horizon. DCoG has agreed that the CIDMS replaces any guidelines that it has issued on infrastructure asset management since the CIDMS is based on the full life-cycle management of infrastructure assets and makes the important and direct link of the MSDF informing the spatial location of infrastructure development. There is a customised, less complicated Local Government IDMS to be used by intermediate city municipalities and other local municipalities together with the LTF Model and Strategy.

### **National Treasury Infrastructure Guidelines**

National Treasury has clarified that the various infrastructure guidelines it has issued serves the functions as set out in Table 2.

### **Longer-Term Sector Strategies**

In addition to MSDFs, CDS/GDS CIDMS and LTF Model and Strategy another trend in some metropolitan municipalities is the development of longer-term sector strategies such as Human Settlement/Housing Strategy, Economic Development Strategy, etc. The MSDF Guideline (2017) requires all sector strategies to be integrated and informed by the spatial strategy [SPLUMA s21 (m)].

**Table 2: National Treasury Infrastructure Guidelines**

| Guideline  | Purpose   |
|--|---|
| Annual guideline on Budget Facility for Infrastructure | Criteria for accessing the Budget Facility for Infrastructure for very high value infrastructure projects |
| Annual Guideline for Capital Planning                  | Guidance to national sector departments on large infrastructure projects                                  |
| PPP Framework  | Guidance on how to design a PPP   |
| Local Government Capital Asset Management Guide (2008) | Accounting treatment if infrastructure assets   |

### **Spatial Targeting and City Transformation Indicators (Integrated Outcome Indicators)**

The city of Johannesburg has clearly adopted spatial targeting into their MSDF since 2014/15 with the Corridors of Freedom, deprived areas, etc. In 2016 the City of Cape Town incorporated their spatial targeting from the BEPPs into their MSDF. Other metropolitan municipalities can now follow the example of the cities of Cape Town and Johannesburg and work their spatially targeted areas into their MSDFs and/or other longer-term plans/frameworks/strategies. After two years of grappling with reporting on the integrated outcome indicators via the BEPPs, the challenges with reporting on these indicators annually are now well-established. The discontinuation of the BEPPs necessitates finding the relevant longer-term plan in which the integrated outcome indicators would best be placed. This issue will be resolved after further consultation with DALRRD and cities during 2021, but it is clear that the integrated outcome indicators are not well suited to the IDP and annual performance reporting.

### **Capital Expenditure Framework (CEF) and Capital Investment Framework (CIF)**

Many metropolitan municipalities have used their BEPPs as the MSDF requirement for a Capital Expenditure/Investment Framework (CEF/CIF) since there has been no specification from the DALRRD – the good practice established by some metropolitan municipalities can be adopted by other metropolitan municipalities until such time as DALRRD provides clarity. Section 4(e) of the MSA Municipal Planning and Performance Management Regulations (2001) requires that the SDF must set out a capital investment framework. At the same time SPLUMA section 21 (n) requires that a MSDF must determine a capital expenditure framework for the municipality's development programmes depicted spatially. And the MSDF Guideline 2017 requires the municipality to develop a capital investment framework that articulates how the spatial proposals are to be achieved sequentially with attention to what key interventions need to take place, where they need to occur and by whom. This difference between the requirements of the MSA Regulations, the MSDF Guideline and the SPLUMA requires urgent clarification from DCoG and DALRRD.

Note that some intermediate city municipalities have adopted the Guide to Preparing a Capital Expenditure Framework issued by DCoG – this guide was designed specifically for intermediate city municipalities and does not apply to metropolitan municipalities.

### **District Development Model (DDM) One Plan**

DCoG has agreed that the following metropolitan longer-term plans/frameworks/strategies will be used to contribute to the District Development Model (DDM) One Plan (which itself is a longer-term plan): -

- Economic Recovery Plan;
- CDS/GDS;
- MSDF;
- CIDMS and LTF Model and Strategy; and
- longer-term sector strategies.

The One Plan and other longer-term plans mentioned above will be used to inform the term-of-office IDP.

All the above planning provisions are indicative of greater coherence and integration across the different planning and budgeting instruments and their respective horizons. These planning developments take on more significance in relation to developments in the reporting reforms.

### **3 Expanding and revising the indicator set**

The sector and municipal consultations informing this update to MFMA Circular No. 88 have prompted significant expansions and revisions to the indicator set. These expansions and revisions distinguish between: - 1) Further conceptual clarification and increase in the 'compliance' indicators; 2) addition of 'new' sectors to the indicators set; and 3) Further expansion and revision of the existing indicators.

#### **3.1 Clarifying and expanding 'compliance' indicators**

The original circular introduced 17 compliance indicators and 4 questions for metropolitan municipalities to report on quarterly. As these indicators were deemed to be for 'compliance' purposes, they were formulated as a singular data elements set without Technical Indicator Descriptions (TIDs). Municipalities were not expected to set targets for these indicators, only to monitor and report on them quarterly in relation to basic legislative compliance and for capacity consideration.

With the benefit of implementation, stakeholders identified the need and value of TIDs for these types of indicators to include a rationale, definition and conceptual clarity. Furthermore, it became apparent that otherwise useful monitoring data and information generated by municipalities did not always fit well within the Output and Outcome results level distinctions, with their attendant short and medium-term accountability requirements in relation to performance targets. Examples of such indicators include the 'Number of protests reported' and the 'Number of registered engineers employed in approved posts' which are very useful indicators, but not necessarily appropriate for performance monitoring and reporting.

Compliance indicators, or lower order results indicators, are therefore considered to be indicators that convey important information about the municipality's legislative and administrative compliance, capacity and staffing, and/or context. They are indicators made up of a single data element for reporting and exist only for monitoring purposes, as opposed to performance monitoring and reporting. Compliance indicators do not have performance targets and their TIDs are shorter and simpler, conveying only the rationale, definition, calculation, frequency of reporting and notes on accumulation.

Across all sectors there has been merit in the introduction of compliance indicators. This has led to the introduction of 74 additional compliance indicators. An additional set of 21 open-ended questions have also been added to allow for open-text submissions, although these do not constitute indicators. Please refer to the update of Appendix A for more information.

#### **3.2 Introducing new sector indicators**

MFMA Circular No. 88 introduced indicators informed by metropolitan municipality powers and functions for each of the following sectors: Energy and Electricity; Environment and Waste; Fire and Emergency Services; Good Governance; Housing and Community Facilities; Transport and Roads; Water and Sanitation; and what was called City Transformation (Integrated outcome indicators). As part of this update, the additional sectors of Financial Management and Economic Development were identified and consultations with sector

partners and departments were undertaken. Climate Change indicators were also proposed as a sector focus at the integrated outcome level.

Only the Economic Development indicator consultations were concluded and a complete set of indicators finalised. For the Financial Management sector, the consultations to rationalise and revise existing reporting remain on-going and will only be finalised in the 2021/22 financial year. As a result, this update reinforces existing financial indicator reporting in relation to MFMA Circular No. 71. This includes the 32 indicators suitable for municipalities and municipal entities issued in terms of Section 216(1)(c) of the Constitution and Section 2 of the MFMA. All existing reporting arrangements remain in place currently and there are no separate or additional MFMA Circular No. 88 financial management indicator reporting requirements at this time.

Although the Climate Change indicator consultations were undertaken with the intention to introduce them at the integrated outcome level along with updated City Transformation indicators, consultation on the appropriate planning and reporting mechanisms for integrated outcome indicators remains ongoing. As a result, there are not any integrated outcome indicators included within this update, as these indicators will be linked to a metropolitan longer-term plan/strategy/framework in the future, possibly the MSDF and/or the CDS/GDS.

### 3.3 Expansion and revision of indicators

Two years of experience of metropolitan municipality reporting of MFMA Circular No. 88 has informed the consultations with sector departments and municipalities. Concurrent consultations undertaken by the Department of Cooperative Governance (DCoG) have further informed revisions and an update to the MFMA Circular No. 88 indicators. This has led to significant expansion, revision and replacement of the existing indicator set.

With the addition of the Economic Development sector and additional Compliance indicators, as well as the removal of indicators for City Transformation at the Integrated Outcome level, there has been a net increase of over 65 per cent in terms of the total indicator set. Please refer to the overview in Table 3 below as well as the details in Appendix E.

Among the existing indicators, nearly  $\frac{1}{4}$  were altered or revised for further definitional clarity and refinement on the back of metro reporting experience. The alterations to these indicators are captured in detail in Appendix E.

**Table 3: Changes in MFMA Circular No. 88 indicators from 2019 to 2020 updates**

|                                  | 2019       | 2020       | NET        |
|----------------------------------|------------|------------|------------|
| <b>City Trans./ Int. Outcome</b> | 16         | --         | -16        |
| <b>Economic Development</b>      | --         | 25         | +25        |
| <b>Electricity and Energy</b>    | 18         | 21         | +3         |
| <b>Environment and Waste</b>     | 19         | 24         | +5         |
| <b>Fire and Disaster</b>         | 5          | 3          | -2         |
| <b>Governance</b>                | 22         | 22         | --         |
| <b>Housing and Co. Fac.</b>      | 19         | 22         | +3         |
| <b>Transport and Roads</b>       | 21         | 20         | -1         |
| <b>Water and Sanitation</b>      | 18         | 25         | +7         |
| <b>Lower ord./Compliance</b>     | 17         | 91         | +74        |
|                                  | <b>155</b> | <b>253</b> | <b>+98</b> |

Table 1 illustrates the maximum number of indicators per category, inclusive of all levels of readiness, based on the updated indicator set. Because these indicators apply on a differentiated basis per municipal category, with the full indicator set originally designed for



metropolitan municipalities, the expanded set of compliance indicators does not apply to metros in their entirety. These were expanded with a view to integrating the Back-2-Basics (B2B) reporting and as a result only 73 of the 91 compliance indicators apply in the case of metropolitan municipalities,<sup>1</sup> meaning that metropolitan municipalities have a total of 235 indicators that apply in practice.

It is important to emphasise that with the application of the reform across other categories of municipalities as a singular, differentially applied set of indicators for all of local government that the maximum number of indicators (253) does not apply in any one case. Among the differentially applied indicators are those that require 'National' or 'Shared' reporting outside the exclusive responsibilities of municipalities, as well as indicators at Tier 3 or 4 levels of readiness, which do not yet apply. As a result, in most cases municipalities are not responsible for reporting on more than half of the proposed indicators in practice at this time.<sup>2</sup>

### 3.4 Rationalisation of reporting in practice

With this update to MFMA Circular No. 88 a number of existing reporting requirements are expected to be integrated into the reporting process and practices, and thereby fall away as parallel reports. This includes the following reporting which is now considered integrated within the MFMA Circular No. 88 quarterly and annual reporting provisions:

- Back-2-Basics (B2B) monthly reporting to DCoG;
- Urban Settlements Development Grant (USDG) Performance Matrix reporting;
- BEPPs reporting of the City Transformation indicators; and
- Additional Service Delivery Information reporting to National Treasury.

## 4 Rolling out the reform to other categories of municipalities

The Department of Cooperative Governance (DCoG) has further advanced the development and application of the MFMA Circular No. 88 indicator set to intermediate cities, districts and local municipalities. With a view to eventually regulating the reform, a broader set of municipal and sector consultations were undertaken in terms of the provisions of Section 43 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) which provides for the Minister of Cooperative Governance and Traditional Affairs, after consultation with MECs for local government and organised local government representing local government nationally, to prescribe and regulate key performance indicators to local government.

It is therefore the intention of the Department of Cooperative Governance (DCoG) that the introduction of the MFMA Circular No. 88 indicators across local government serves as a pilot process towards eventual issuing a Regulation. The pilot of the MFMA Circular No. 88 indicators is intended to replace the Local Government: Planning and Performance Management Regulations of 2001, potentially targeted for November 2022.

Unlike the original circular (2017), this Addendum update applies **to all categories of municipalities**. It expands the scope of indicators applicable to the other categories of municipalities beyond metros (8)<sup>3</sup> including:

- Intermediate (or secondary) Cities (39);
- District Municipalities (44); and
- Local Municipalities (166).

<sup>1</sup> For instance, 82 compliance indicators apply for intermediate cities; 75 for district municipalities and 74 for local municipalities.

<sup>2</sup> Metropolitan municipalities have the maximum reporting load with 105 Tier 1 and 2 indicators, 73 applicable compliance indicators and 14 applicable compliance questions per annual reporting cycle, inclusive of National and Shared indicators.

<sup>3</sup> References the number of municipalities that are considered within each category.

Each MFMA Circular No. 88 indicator will be differentially applied per category of municipality and in terms of the four-tier readiness system. Only Tier 1 and Tier 2 indicators will apply to all municipalities from 2021/22 financial year onwards for the purposes of piloting.

**Table 4: Extract from a TID specifying the categories of municipality an indicator applies and its level of readiness**

| Reporting responsibility | Applies to Municipal Category |     | Readiness |
|--------------------------|-------------------------------|-----|-----------|
| Municipality             | Metro                         | Yes | Tier 2    |
|                          | Intermediate City             | Yes | Tier 3    |
|                          | District                      | No  | N/A       |
|                          | Local                         | Yes | Tier 3    |

In Table 4 above, the indicator would apply to metropolitan municipalities, intermediate cities and local municipalities, but not districts. However, it would only be ready for planning and reporting in metropolitan municipalities for the 2021/22 financial year and would not yet be prescribed to intermediate cities and local municipalities.

#### 4.1 Special pilot provisions for rollout across local government

In order to get the process of planning and reporting on the indicators going, to test the indicators and for municipalities to get the related planning and reporting processes and systems in place, a staggered pilot process will follow for the rest of local government. This is informed by audit considerations and in consultation with the Auditor-General of South Africa (AGSA) to support municipalities to adopt the reform without the risk of receiving audit findings as part of the pilot process.

The existing MFMA Circular No. 88 guidance to give expression to outcome indicators in the IDP (and annual IDP update) and output indicators in the SDBIPs will continue to apply to metropolitan municipalities only.

Due to the pilot process in the 2021/22 financial year, intermediate cities, district and local municipalities will not be required to incorporate the indicators in their existing performance indicator tables in the IDP and SDBIP. Instead, these indicators should find expression in a dedicated Annexure to the IDP and SDBIP which clearly indicates the MFMA Circular No. 88 indicators applicable to the municipality at Tier 1 and 2 levels of readiness.

For this pilot process, the applicable indicators as included in the Annexures will be monitored and reported on, on a quarterly and annual basis, to the DCoG and the provincial departments of Cooperative Governance and Traditional Affairs (COGTAs). No reporting in the MSA section 46 statutory annual performance report (APR) will be required.

Municipalities will continue to plan and report on the KPIs adopted in the indicators tables of the IDP and SDBIP in the section 46 APR as required for 2021/22.

This “parallel” pilot process will allow and encourage municipalities to plan, implement and report on the MFMA Circular No. 88 indicators, without limiting their statutory performance planning and reporting in fear of audit findings before they have not adequately institutionalized the process. e.g. It will further avoid the situation where municipalities replace or remove existing indicators on a function (e.g. with regard to water) in the official IDP and SDBIP, and only include the related MFMA Circular No. 88 indicators with no performance

reporting on the function in the statutory section 46 Annual Performance Report due to the pilot process.

Practically, piloting for all categories of municipality (except metros) means the following as it relates to municipal planning:

- Tier 1 and Tier 2 outcome, output and compliance indicators applicable to the municipality to be included in a dedicated Annexure to the IDP and SDBIP which clearly indicates the indicator;
- Baselines should be established for Tier 1 and Tier 2 outcome, output and compliance indicators and reflected in the IDP reviews/updates from 2021/22 onwards;
- Targets for outcome indicators should be set with a five-year horizon for local government (2025/26);
- Targets for output indicators should be set on an annual basis (2021/22, with potential quarterly targets depending on the frequency of the indicator); and
- NO targets should be set for compliance indicators as these are tracked for monitoring purposes only.

Practically, piloting for all categories of municipality (except metros) means the following as it relates to municipal reporting:

- Quarterly and annual reports will be submitted to Provincial COGTAs and DCoG for all Tier 1 and Tier 2 output and compliance indicators (quarterly and/or annual) and outcome indicators (annual only); and
- During pilot, NO reporting through the Section 46 Annual Performance Report (APR) will be required.

Municipalities can expect the Department of Cooperative Governance (DCoG) to fulfill the following roles and responsibilities as it relates to the introduction of these indicators:

- Coordinate the planning and reporting reform with the other centre of government departments and provide policy direction across municipal categories;
- Develop and issue the relevant planning and reporting templates, guidance notes and updates;
- Receive data from municipalities, and consolidated provincial reports from provincial CoGTA departments analyse and compare data from across municipal contexts and provide feedback;
- Facilitate the development of an ICT system for centralised transmission of data in line with plans for the District Development Model; and
- Issue extracts of the applicable Tier 1 and Tier 2 indicators and their summary definitions for all categories of municipality for ease of reference.

Municipalities can expect Provincial CoGTA departments to fulfil the following roles and responsibilities:

- Provide technical support for piloting and reporting by municipalities to provincial COGTA's and national DCoG;
- Utilise the DCoG guidance documentation and reporting templates;
- Host forums, briefings and platforms to support the uptake and rollout of the indicators;
- Establish a reporting process, follow-up with municipalities, analyse and develop a consolidated provincial report to the DCoG, and provide feedback to municipalities;
- Escalate Frequently Asked Questions to the DCoG and distribute/share/communicate FAQ's by DCoG in the provinces; and
- Provide feedback and suggestions to strengthen the reform rollout.

It is anticipated that the pilot rollout outside of established statutory planning and reporting requirements will provide valuable experience and insight to inform further updates ahead of eventual regulatory reform.

## 5 Evaluations

MFMA Circular No. 88 drew on the conceptual framing of a suite of policies set out in terms of the *Policy Framework for Government-wide Monitoring and Evaluation* (GWMES) (Presidency, 2007) to advance planning and reporting reforms. In particular, it built on the policy foundations of the *Framework for Managing Programme Performance Information* (FMPPI) (National Treasury, 2007) as well as the *South African Statistics Quality Assessment Framework* (StatsSA, 2010) (SASQAF) to specify results areas for municipal performance indicators and to distinguish between the different data terrains available to state actors for planning, monitoring and reporting purposes.

**Figure 1: Three data terrains of the Government-Wide Monitoring and Evaluation System and their policy frameworks**

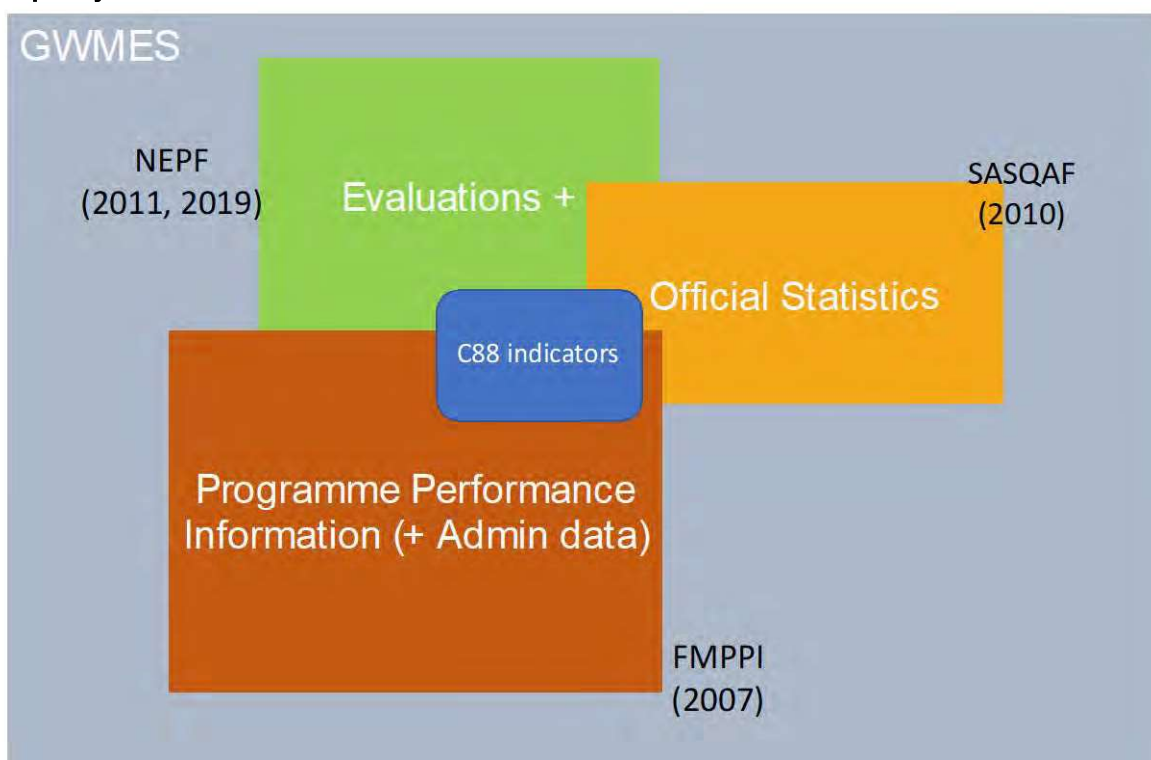


Figure 1 illustrates the three respective data terrains with their accompanying policy frameworks and situates the MFMA Circular No. 88 outcome, output and compliance indicators in relation to the data terrains they draw on. To date, all of the MFMA Circular No. 88 indicators have been developed and formulated with a view to locating them within either one of two data terrains set out in the *GWMES*: Programme Performance Information; or Official Statistics. However, the *Policy Framework for Government-Wide Monitoring and Evaluation* (GWME) provides for a third data terrain better suited to systematically and comprehensively answering ‘How’ and ‘Why?’ questions raised in relation to the achievement of outcomes: Evaluations. This update to MFMA Circular No. 88 reinforces the complementary function of evaluations in relation to planning, budgeting and reporting. It emphasizes that evaluations are the correct means of determining the achievement of outcomes, and that MFMA Circular No. 88 should not be misunderstood to suggest reporting on a set of performance indicators is sufficient to claim achievement of an outcome. Ultimately, municipalities that are able to coordinate and integrate their planning, budgeting, and reporting with periodic evaluation exercises will be in a much better position to advance evidence-based decision-making for improved developmental outcomes.

## 5.1 Institutionalising evaluation in the local government sphere

The 2019 National Evaluation Policy Framework (NEPF) has clarified the objective of ensuring local government successfully institutionalizes the practice of evaluation, as it is critical to the realization of the outcomes, of the National Development Plan (NDP). Further, the District Development Model provides an opportunity to advance this vital strategic function through better coordinated intergovernmental planning and budgeting. This occurs at a time when the MFMA Circular No. 88 reforms are advancing a differentiated, standardized and comparable set of indicators for all of local government. There are apparent synergies and common reform objectives related to evidence-based decision-making and cost-effectiveness of public sector strategies in this regard.

The NEPF sets out clearly the roles for the Department of Planning, Monitoring and Evaluation (DPME) along with DCoG and Provincial CoGTAs as it relates to evaluation. DPME has developed a three-phase approach to evaluation rollout and there is merit in recognizing how the outcomes areas and indicators that are monitored in relation to them provide ripe opportunities for the identification of objects of evaluation and to better understand what outcomes and impacts municipalities are directly contributing to in practice. This is all the more important when it comes to the realization of spatial transformation and associated integrated outcomes.

The MFMA Circular No. 88 addendum consultations have reinforced the potential value and timing of evaluations as an available data terrain and in relation to the overarching reforms. This addendum update seeks to confirm that planning, budgeting and reporting reforms should be seen within a broader cycle intended to make use of evidence to inform policy for better performance, accountability, knowledge generation and decision-making.

## 6 Conclusion

This Addendum and its appendices are an update to the MFMA Circular No. 88 dated 30 November 2017, the original circular, as well as the Addendum dated 4 December 2019 – this Addendum must be read together the original circular and the 2019 update and the relevant appendices. This Addendum provides guidance to all categories of municipalities.

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17 December 2020

**MFMA Circular No. 107****Municipal Finance Management Act No. 56 of 2003****Municipal Budget Circular for the 2021/22 MTREF****CONTENTS**

|           |  |           |
|-----------|--|-----------|
| <b>1.</b> | <b>THE SOUTH AFRICAN ECONOMY AND INFLATION TARGETS.....</b>                        | <b>2</b>  |
| <b>2.</b> | <b>KEY FOCUS AREAS FOR THE 2021/22 BUDGET PROCESS .....</b>                        | <b>3</b>  |
| 2.1       | LOCAL GOVERNMENT CONDITIONAL GRANTS ALLOCATIONS .....                              | 3         |
| <b>3.</b> | <b>2021 LOCAL GOVERNMENT ELECTIONS AND THE BUDGET PROCESS.....</b>                 | <b>4</b>  |
| <b>4.</b> | <b>MUNICIPAL STANDARD CHART OF ACCOUNTS (MSCOA) .....</b>                          | <b>6</b>  |
| 4.1       | RELEASE OF VERSION 6.5 OF THE CHART.....   | 6         |
| 4.2       | BUDGETING AND REPORTING FOR THE COVID-19 PANDEMIC AND WATER INVENTORY .....        | 6         |
| 4.3       | REVISED MUNICIPAL PROPERTY RATES ACT CATEGORIES .....                              | 7         |
| 4.4       | FORBIDDEN ACTIVITIES .....   | 7         |
| 4.5       | INDEPENDENT AUDITS ON MUNICIPAL FINANCIAL SYSTEMS.....                             | 8         |
| 4.6       | REGULATION OF MINIMUM BUSINESS PROCESSES AND MSCOA SYSTEM SPECIFICATIONS .....     | 8         |
| 4.7       | NON-COMPLIANCE WITH MSCOA REQUIREMENTS .....                                       | 9         |
| 4.8       | EXTENSION AND PROCURING OF SERVICE LEVEL AGREEMENTS (SLA) FOR FINANCIAL SYSTEMS .. | 10        |
| 4.9       | CASH FLOW RECONCILIATION .....   | 10        |
| 4.10      | MSCOA CALENDAR FOR 2021/22.....  | 10        |
| <b>5.</b> | <b>THE REVENUE BUDGET .....</b>  | <b>11</b> |
| 5.1       | MAXIMISING THE REVENUE GENERATION OF THE MUNICIPAL REVENUE BASE.....               | 11        |
| 5.2       | SETTING COST-REFLECTIVE TARIFFS.....   | 12        |
| 5.3       | BULK ACCOUNT PAYMENTS - Eskom CONCESSIONS .....                                    | 12        |
| 5.4       | TIMEOUS ALLOCATIONS AND CLEARING OF THE CONTROL ACCOUNTS.....                      | 13        |
| 5.5       | ESKOM BULK TARIFF INCREASES.....   | 13        |
| <b>6.</b> | <b>FUNDING CHOICES AND MANAGEMENT ISSUES.....</b>                                  | <b>13</b> |
| 6.1       | EMPLOYEE RELATED COSTS .....   | 13        |
| 6.2       | REMUNERATION OF COUNCILLORS.....   | 14        |
| <b>7.</b> | <b>CONDITIONAL GRANT TRANSFERS TO MUNICIPALITIES.....</b>                          | <b>14</b> |
| 7.1       | NON-COMPLIANCE OF IN-YEAR MONITORING.....  | 14        |
| <b>8.</b> | <b>THE MUNICIPAL BUDGET AND REPORTING REGULATIONS.....</b>                         | <b>15</b> |
| 8.1       | ENSURING MUNICIPAL SUSTAINABILITY THROUGH A FUNDED BUDGET .....                    | 15        |
| 8.2       | BUDGETING FOR INDIRECT GRANT ALLOCATIONS .....                                     | 15        |
| 8.3       | MONTHLY REPORTING OF DEBTORS .....   | 15        |
| 8.4       | SCHEDULE A - VERSION TO BE USED FOR THE 2021/22 MTREF .....                        | 16        |
| 8.5       | ASSISTANCE WITH THE COMPILATION OF BUDGETS .....                                   | 17        |
| 8.6       | ASSESSING THE 2021/22 MTREF BUDGET.....  | 17        |
| <b>9.</b> | <b>BUDGET PROCESS AND SUBMISSIONS FOR THE 2021/22 MTREF .....</b>                  | <b>18</b> |
| 9.1       | SUBMITTING BUDGET DOCUMENTATION AND A1 SCHEDULES FOR 2021/22 MTREF .....           | 18        |
| 9.2       | EXPECTED SUBMISSIONS FOR 2021/22 MTREF .....                                       | 19        |
| 9.3       | PUBLICATION OF BUDGETS ON MUNICIPAL WEBSITES .....                                 | 20        |
| 9.4       | COMMUNICATION BY MUNICIPAL ENTITIES TO NATIONAL TREASURY .....                     | 20        |

## Introduction

The purpose of the annual budget circular is to guide municipalities with their compilation of the 2021/22 Medium Term Revenue and Expenditure Framework (MTREF). This circular is linked to the Municipal Budget and Reporting Regulations (MBRR) and the municipal Standard Chart of Accounts (*mSCOA*); and strives to support municipalities' budget preparation processes so that the minimum requirements are achieved.

Among the objectives of this budget circular is to demonstrate how municipalities should undertake annual budget preparation in accordance with the budget and financial reform agenda by focussing on key "game changers". These game-changers include ensuring that municipal budgets are funded, revenue management is optimised, assets are managed efficiently, supply chain management processes are adhered to, *mSCOA* is implemented correctly and that audit findings are addressed.

Municipalities are reminded to refer to the annual budget circulars of the previous years for guidance on budget preparation that is not covered in this circular.

### 1. The South African economy and inflation targets

The National Treasury projects real economic growth of 3.3 per cent in 2021, following an expected contraction of 7.8 per cent in 2020. Real GDP growth is expected to moderate to 1.7 per cent in 2022 and 1.5 per cent in 2023, averaging 2.1 per cent over the medium term.

South Africa experienced its largest recorded decline in economic output in the second quarter of 2020 due to the strict COVID-19 lockdown. Real GDP fell by 17.1 per cent relative to the previous quarter (or 51 per cent on a seasonally adjusted and annualised basis), with all major sectors except agriculture declining. The second-quarter results were weaker than expected in the June 2020 special adjustments budget, which projected a contraction of 7.2 per cent in 2020.

High-frequency data for the third quarter – such as the volume of electricity distributed, mining and manufacturing output, business confidence and the Absa Purchasing Managers' Index (PMI) – shows evidence of a limited economic rebound. Although growth rates are likely to improve quickly as restrictions are removed, based on current projections, output is only expected to return to pre-pandemic levels in 2024.

The main risks to the economic outlook are weaker-than-expected growth, continued deterioration in the public finances and a failure to implement structural reforms. A second wave of COVID-19 infections, accompanied by new restrictions on economic activity, would have significant implications for the outlook. Government's fiscal position is a risk to growth: higher long-term borrowing costs and risk premiums have started to affect the broader economy.

In addition, recovery efforts will fail unless structural constraints (including in energy, infrastructure and competitiveness) are urgently addressed. While the reforms required in these areas do not immediately affect growth, they are critical for market confidence and investment.

Electricity remains a binding constraint on economic recovery, with power interruptions expected to continue into 2021. Private generation will only be able to plug the electricity gap to a limited extent over the next year.

Job creation is a top priority of the economic recovery plan that will guide policy actions over the medium term, supported by new infrastructure investment and large-scale public

employment programmes. In addition, targeted skills development will improve productivity and employment prospects.

Headline inflation is at the lower end of the 3 to 6 per cent target range. Goods and services inflation has broadly declined due to weak demand and falling oil prices. Inflation is forecast to fluctuate around the 4.5 per cent midpoint over the medium term in line with moderating inflation expectations.

In summary, the country's tax collection targets have not been met and this means that the fiscus has less funds available to allocate across the various spheres of government. There are measures in place to reduce expenditure to narrow the deficits.

The following macro-economic forecasts must be considered when preparing the 2021/22 MTREF municipal budgets.

**Table 1: Macroeconomic performance and projections, 2016 - 2020**

| Fiscal year   | 2019/20 | 2020/21  | 2021/22 | 2022/23  | 2023/24 |
|---------------|---------|----------|---------|----------|---------|
|               | Actual  | Estimate |         | Forecast |         |
| CPI Inflation | 4.1%    | 3.2%     | 4.1%    | 4.4%     | 4.5%    |

Source: Medium Term Budget Policy Statement 2020.

Note: the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.

## 2. Key focus areas for the 2021/22 budget process

### 2.1 Local government conditional grants allocations

Transfers to local government will be reduced by R17.7 billion, including R14.5 billion from the local government equitable share, R2.7 billion from the general fuel levy and R569 million in direct conditional grants over the 2021 MTEF period. The local government equitable share formula has been updated to account for projected household growth, inflation and estimated increases in bulk water and electricity costs over the MTEF period.

Government will revisit underperforming programmes. For example, some cities receiving the Public Transport Network Grant (PTNG) have not launched their integrated public transport networks. Over the MTEF period, government will suspend at least two more poorly performing cities from this grant and the remaining cities will be required to reduce costs and demonstrate their effectiveness to remain funded.

The annual Division of Revenue Bill will be published in February 2021 after the Minister of Finance's budget speech. The Bill will specify grant allocations and municipalities must reconcile their budgets to the numbers published herein.

Municipalities are advised to use the indicative numbers presented in the 2020 Division of Revenue Act to compile their 2021/22 MTREF. In terms of the outer year allocations (2023/24 financial year), it is proposed that municipalities conservatively limit funding allocations to the indicative numbers as presented in the 2020 Division of Revenue Act for 2020/21. The DoRA is available at

<http://www.treasury.gov.za/documents/national%20budget/2020/default.aspx>



## ***Division of Revenue Second Amendment Bill, 2020: changes to local government allocations***

**Roll-over of funds** - R390 million is rolled over in the Urban Settlement Development Grant (USDG) to fund commitments for bulk infrastructure related projects in Nelson Mandela Bay Metropolitan Municipality. R98 million is rolled over in the PTNG to continue with the rollout of the integrated public transport network (IPTN) for public and non-motorised infrastructure in Nelson Mandela Bay Metropolitan Municipality.

R307 million is rolled over in the Regional Bulk Infrastructure Grant (RBIG) for drought and COVID-19 water and sanitation interventions nation-wide.

**Water Services Infrastructure Grant (WSIG)** - R12 million has been reprioritised from the Department of Water Affairs' budget into the indirect component of WSIG for the implementation of various water services interventions.

### ***Reductions to municipal conditional grants***

In the Medium-Term Policy Budget Statement, the Minister of Finance indicated that R10.5 billion is required for the rescue plan for the South African Airways. Therefore, R613 million has been proportionately reduced across municipalities in respect of conditional grants while no reductions were made to the local government equitable share for the 2020/21 financial year.

These changes are shown in Schedule 4, Part B; Schedule 5, Part B and Schedule 6, Part B of the Bill.

### ***Additional instruments to finance infrastructure in municipalities***

Municipalities can access other instruments to finance the development of infrastructure that boosts economic growth beyond infrastructure grants. Reforms over the medium term will enhance the ability of municipalities to raise revenue to invest in their own development. An update on development charges and borrowing reforms is summarised below:

- **Development charges** - Municipalities earn revenue from charging developers to connect new developments to municipal services. The draft Municipal Fiscal Powers and Functions Amendment Bill proposes new, uniform regulations in respect of these development charges, thereby strengthening the revenue-raising framework of municipalities. After processing comments, the National Treasury will submit the Bill to Cabinet and Parliament for consideration in 2021; and
- **Borrowing** - Creditworthy municipalities can also borrow in capital markets. The National Treasury has updated the original municipal borrowing policy framework, which guides this borrowing, and will shortly submit it to Cabinet for approval. The proposed changes aim to increase the term maturity of borrowing improve the secondary market for the trade of municipal debt instruments and define the role of development finance institutions to avoid crowding out the private sector.

## **3. 2021 Local Government Elections and the budget process**

Local government elections are scheduled to take place in 2021, and the proposed date is yet to be determined. Elections are important events as we reaffirm our commitment to democratic and accountable government by choosing representatives of the people who will guide the work of local government for the next five years.

The following four risks need to be explicitly managed:

1. In terms of section 13 of the Municipal Property Rates Act, 2004 (Act No 6 of 2004)(MPRA) and sections 24 and 42 of the Municipal Finance Management Act, 2003 (Act No 56 of 2003)(MFMA), new tariffs for property rates, electricity, water and any other taxes and similar tariffs may only be implemented from the start of the municipal financial year (1 July). This means that the municipal council must approve the relevant tariffs as part of the MTREF budget before the commencement of the financial year on 1 July. Failure to obtain council approval for the annual tariff increases would most likely cause an immediate financial crisis that may lead to the provincial executive intervening in the municipality in terms of section 139 of the Constitution. Therefore, if the elections take place after the start of the financial year, the outgoing council will be responsible for approving tariffs for the 2021/22 MTREF and the newly elected council for the implementation thereof as section 28(6) of the MFMA does not allow the increase of tariffs in-year;
2. In terms of section 16 of the MFMA, a municipal council must approve the annual budget for the municipality before the start of the financial year, and should a municipal council fail to do so, section 26 of the MFMA prescribes that the provincial executive **must** intervene. This provincial intervention may include dissolving the municipal council and appointing an administrator to run the municipality. Therefore, the outgoing council must ensure that they comply with the timeframes for approval of the budget;
3. The outgoing council may be tempted to prepare an 'election friendly budget' with unrealistically low tariff increases and an over-ambitious capital expenditure programme. The outcome of this approach will undoubtedly be an unfunded municipal budget that threatens their respective municipality's financial sustainability and service delivery; and
4. Given that the timing of election campaigning may coincide with the municipal public budget consultations, there is a risk that these consultations may be neglected or used to serve the narrow interests of political parties. It is reiterated that transparency and public participation is an integral part of our constitutional democracy, hence municipalities must ensure that public and stakeholder consultation processes are adhered to as required by the legislative framework.

In the build-up to the 2021 local government elections, the financial sustainability of the municipality should be protected. Now, more than ever before, it is paramount for sound municipal decision-making so that the long-term sustainability of municipal finances and service delivery is achieved beyond the election period.

Finances of some municipalities have been unstable for many years, and this was exacerbated by the financial impact of the COVID-19 pandemic. Therefore, there is severe pressure to maintain healthy cash flows and increase cost containment measures while sustaining efficient service delivery levels. It is therefore imperative that municipalities refrain from suspending credit control and debt collection efforts. Municipalities are also reminded of the regulatory framework set out in the Municipal Cost Containment Regulations insofar as it relates to the use of municipal funds to fund election campaigns and other non-priority issues as this might further impact the financial sustainability of municipalities.

Furthermore, as the current municipal leadership will be responsible for the compilation of the 2022/23 MTREF budgets, councils are advised to prioritise expenditure appropriations aligned to the policy intent as described in the integrated development plans (IDPs). Infrastructure provisioning for water, sanitation, roads and electricity remain key priorities.

In addition, the outgoing council is advised to critically consider the financial implications before entering into new long-term contracts that are not of priority to the municipality and avoid if possible, committing the incoming council. Municipalities should refrain from filling non-critical positions, purchasing cars, procuring new financial systems and from incurring any other expenditure at this stage that will financially burden the incoming council.

During this time of transition, all stakeholders should work together to ensure that municipalities continue to perform their functions efficiently and effectively. The Mayor and municipal manager should now be engaging in the process of the annual review of the fifth and last year of the IDP in terms of section 34 of the Municipal Systems Act (MSA) and the 2022/23 budget preparation process in terms of section 21 of the MFMA. It is particularly important to ensure that arrangements for the review of IDPs and preparation of budgets continue seamlessly as these processes cannot be delayed in anticipation of the announcement of an election date.

In deciding on the schedule for the 2022/23 budget process, the Mayor and municipal manager must also note that the MFMA, read together with the Municipal Budget and Reporting Regulations, only allows for a 'main adjustments budget' to be tabled after the mid-year budget and performance assessment has been tabled in council, i.e. after 25 January 2022. In addition, the permitted scope of an adjustments budget is quite limited in that taxes and tariffs may not be increased (refer to section 28(6) of the MFMA) and any additional revenues may only be appropriated to programmes and projects already budgeted for (refer to section 28 of the MFMA). Therefore, the idea of the current council passing a 'holding budget' which the new council will change substantially through an adjustments budget soon after the start of the municipal financial year is not legally permitted.

Though an IDP is a five-year strategic document of council, municipalities should note that when a new council takes office after a local government election, the norm has been that the new council implements the last adopted IDP during the first year of office. It is normally only in the second year of office that the newly elected council adopts a new IDP after thorough interrogation, extensive consultation and finalisation of a new five-year strategy.

In the absence of detailed information on the 2021 Local Government Elections, National Treasury will provide further guidance in the follow-up MFMA Budget Circular to be issued in March 2021.

## **4. Municipal Standard Chart of Accounts (*m*SCOA)**

### **4.1 Release of Version 6.5 of the Chart**

On an annual basis, the *m*SCOA chart is reviewed to address implementation challenges and correct chart related errors. Towards this end, Version 6.5 is released with this circular.

Version 6.5 of the chart will be effective from 2021/22 and must be used to compile the 2021/22 MTREF and is available on the link below:

<http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx>

### **4.2 Budgeting and Reporting for the COVID-19 pandemic and water inventory**

In terms of the Annexure to MFMA Circular No. 99, *m*SCOA Circular No. 9, and GRAP 12, municipalities were advised to:

1. Record and ringfence all funding and expenditure pertaining to the COVID-19 pandemic for the 2020/21 MTREF when budgeting and transacting; and

2. Budget and account for bulk water purchases as inventory as per GRAP 12 (paragraph 07).

It is evident from the snapshots that were drawn from the Local Government Database based on the *m*SCOA data strings that were submitted by municipalities in terms of the monthly Section 71 reporting, that most municipalities have not budgeted or reported on COVID-19 related allocations and expenditure, nor bulk water inventory as per the guidance provided.

Although the regulated A1 Schedule will only be amended from the 2021/22 MTREF to align to GRAP 12 (as per MFMA Circular No. 98), municipalities should already record water inventory in the *m*SCOA chart. ***Municipalities must budget for water as inventory in the 2021/22 MTREF.*** This means that municipalities will no longer be able to budget for water bulk purchases as an expense on table A4. Municipalities must use bulk water purchases i.e. system input volume on table A6: inventory. This provides for three different water sources i.e. water treatment works, bulk purchases and natural sources. When water is issued through the billing/ distribution, the cost should be expensed through table A4: inventory consumed with the corresponding accounting transaction in the inventory account on table A6: current assets: water: authorised consumption.

Municipalities that did not adjust their 2020/21 MTREF budgets by 30 September 2020 to respond to the COVID-19 pandemic or budget for bulk water inventory are reminded to do so in the main adjustments budget process in February 2021.

It should also be noted that the National Treasury's reporting on COVID-19 will be drawn as per *m*SCOA Circular No. 9 and we will not be able to identify COVID-19 allocations and expenditure that have been ringfenced in another manner.

Municipalities must submit the adjustments budget and revised project list for 2020/21 in the format of a *m*SCOA data strings (ADJB and PRAR) uploaded to the Local Government (LG) Upload Portal within 10 working days after Council has adopted the adjustments.

#### **4.3 Revised Municipal Property Rates Act Categories**

By now all municipalities should be aware that section 8 of the Municipal Property Rates Act on the determination of categories of **rateable** properties has been revised through the Local Government Municipal Property Rates Amendment Act, 2014 ("the Amendment Act"). The new rateable property categorisation framework based on use (provided these property categories exist within the municipality) and consequently, all property categories that are based on ownership, geographic location or any other basis fall away.

Municipalities must implement the new property categorisation framework by not later than 1 July 2021. The *m*SCOA chart Version 6.5 makes provision for the new and the old framework. However, the old framework will be retired in the next version of the chart and municipalities are advised to implement the new property categorisation framework as legislated. Therefore, municipalities cannot use both frameworks to avoid duplication and overstatement of revenue from property rates.

#### **4.4 Forbidden activities**

The Item Assets segment of the *m*SCOA chart currently includes items such as staff loans as non-current receivables from non-exchange transactions. This is in contravention with Section 164(1)(c) of the MFMA that stipulates that a municipality may not make loans to councillors or officials of the municipality; directors or officials of the entity; or members of the public. Therefore, municipalities are advised not to use these items when budgeting as National Treasury may retire these items in the next version of the chart.

#### 4.5 Independent Audits on Municipal Financial Systems

All municipalities and municipal entities had to comply with the *mSCOA* Regulations by 1 July 2017. MFMA Circular No. 80 provided guidance on the minimum business processes and system specifications for all categories of municipality (A, B and C). The Request for Proposal (RFP) issued on 4 March 2016 for the appointment of service providers for an integrated financial management and internal control system for local government (RT25-2016 published in Tender Bulletin No. 2906), provided further guidance on the requirements applicable to a specific category of municipality.

The National Treasury will conduct independent audits on all municipal financial systems in 2021 to determine to what extent the financial systems that are currently being used by municipalities comply with the minimum business processes and system specifications required in terms of *mSCOA*. These audits were initially planned for 2020, but due to restrictions on procurement processes and travel in terms of the COVID-19 pandemic it was postponed to 2021. The results of the audits will also inform the new transversal tender for the procurement of municipal financial and internal control systems in 2022. **Until these audits have been concluded, and the results have been released, municipalities should exercise caution when changing their financial system to avoid purchasing a system that does not comply with the necessary *mSCOA* functionality requirements.** However, should a municipality need to procure a new financial system, they must follow the processes set out in the MFMA read together with the Municipal Supply Chain Management Regulations and MFMA Budget Circulars No. 93, 98 and *mSCOA* Circulars No 5 and 6. In addition, National Treasury has not accredited any of the municipal financial systems available in the market and this should therefore not be advertised as a requirement in municipal tender documents.

It should be emphasised that the onus to ensure compliance with the *mSCOA* Regulations and minimum system specifications as per MFMA Circular No. 80 and its Annexure B rests with the municipality and not the system vendor. Municipalities must properly manage Service level agreements (SLA) with system vendors. Penalties, including the termination of the SLA in cases of persistent non-compliance, should be imposed if the system vendor does not meet the agreed upon milestones. Likewise, if a system vendor has delivered on the services agreed upon in the SLA, then the municipality should pay all money owing to the system vendor within 30 days of receiving the relevant invoice or statement, as per the requirements of Section 65(2)(e) of the MFMA. Lastly, municipalities must agree on the services that are to be provided by the system vendors and costs thereof in the SLA that is signed by the municipality and system vendor. Municipalities should consider the financial implications thereof and negotiate more favourable terms with the system vendor if necessary before signing the SLA. Once signed, the SLA is legally binding.

#### 4.6 Regulation of Minimum Business Processes and *mSCOA* System Specifications

National and Provincial Treasuries held extensive engagements with key system providers during which the system functionality on the following were demonstrated: IDP and budget, supply chain management (SCM), asset management, annual financial statements, revenue management, cash flow and period control. These engagements provided National and Provincial Treasuries with an understanding of what functionality is available on each system and what the key system related challenges are.

It was evident from the engagements that municipalities are not using their financial systems optimally. Some of the challenges that were identified in this regard include the following:

- Some municipalities have not purchased all the modules of the core financial system or have not upgraded to the Enterprise Resource Planning (ERP) (*mSCOA* enabling) version of their financial systems;

- A few municipalities are not paying for the required licences to use system solutions and they are not upgrading and maintaining their servers, hardware and software to become and remain *mSCOA* compliant and to protect their data;
- Several municipalities are still transacting on their legacy systems that are not *mSCOA* enabling or they are using excel spreadsheets that are not incorporated in the functionality of their financial systems, while they are paying for maintenance and support for the *mSCOA* enabling system that was procured. This constitutes fruitless and wasteful expenditure; and
- Other municipalities are not using all the modules of the core financial system (using 3rd party systems) while they have procured these modules. This is once again fruitless and wasteful expenditure.

Municipalities should include the cost of the above in their 2021/22 MTREF budgets.

One of the key objectives of the *mSCOA* reform is to ensure that municipalities are budgeting, transacting and reporting directly on and from integrated ERP systems to have one version of the truth in terms of the reported financial performance. The manual correction of data strings by municipal officials or system vendors are not allowed in terms of the *mSCOA* Regulations.

National Treasury will expand and regulate the business processes and system specifications communicated in MFMA Circular No. 80 and its Annexure B in the 2021/22 MTREF to ensure that municipalities are using the functionality available on their financial systems. MFMA Circular No. 80 was issued in 2016, and several Regulations and best practises as per the MFMA Circulars have been introduced since then. The expansion of the requirements will accommodate these new developments.

#### **4.7 Non-compliance with *mSCOA* requirements**

If your municipality has not yet achieved the required level of *mSCOA* implementation, then it must provide a detailed action plan (road map) to the National and the respective provincial treasury to indicate how the municipality will fast track the implementation of *mSCOA*. The action plan should include the following priority areas, as applicable to the municipality:

- The functionality of the financial system, including the minimum system functionality and business process as per MFMA Circular No. 80 and Annexure B and functionality required in terms of Regulations and MFMA Circulars that was issued after 08 March 2016 (the date on which MFMA Circular No. 80 was issued);
- Integration of 3rd party sub-systems with the *mSCOA* enabling financial system as required in terms of MFMA Circular No. 80 and Annexure B;
- Change management initiatives to ensure that *mSCOA* is institutionalised as an organisational reform and not only a financial reform; and
- Training initiatives to ensure that all officials in the organisation are familiar with the *mSCOA* chart, basic accounting, balance sheet budgeting and movement accounting and the use of the *mSCOA* enabling financial system.

Importantly, the action plan must be drafted by the municipality and not the system vendor and the progress against it should be carefully monitored by the municipality's *mSCOA* Project Steering Committee (chaired by the Accounting Officer). Municipalities must present progress against the action plan at the 2020/21 Mid-Year Budget and Performance visits and Budget and Benchmark engagements with the National and the respective provincial treasury.

#### 4.8 Extension and Procuring of Service Level Agreements (SLA) for Financial Systems

At least six (6) months prior to the expiry of the SLA for the support and maintenance of the financial system, the municipality should either:

- Extend the existing SLA with the same system vendor subject to the provisions of Section 33 and 116(3) of the MFMA (read in conjunction with MFMA Circular No. 62); or
- Approach the market to procure services for the support and maintenance of the financial system consistent with the Municipal Supply Chain Management Regulations and municipality's Supply Chain Management Policy.

Importantly, once the SLA has expired, it cannot be extended, and the municipality will have to embark on a new procurement process. In addition, when the contract for the support and maintenance of the financial system comes to an end, it does not mean that the municipality must procure a new financial system. It is only support and maintenance services pertaining to the financial system that needs to be procured. Municipalities need to properly document their systems and the system language used to ensure that system support can be procured in the local market when required.

#### 4.9 Cash flow reconciliation

The population of the cash flow reconciliation in tables A7, B7 and C7 of the MBRR formats using *m*SCOA data strings has been a challenge in previous financial years. The main contributing factors to this were that:

- Municipalities were not using the *m*SCOA segments correctly to populate their cash flow information;
- A number of municipalities did not use the movement accounts correctly in the *m*SCOA chart which distorts the figures reported in the cash flow tables;
- Some municipalities did not budget, transact or report directly in or from their financial systems; and
- There were errors in the linkages of the MBRR cash flow tables to the *m*SCOA data strings in the segment item: asset and liabilities on the Local Government Database.

It is critical that municipalities undertake balance sheet and cash flow budgeting to provide accurate cash flow information. National Treasury has provided guidance in this regard in MFMA Circular No. 98 and *m*SCOA Circular No. 10 and have also corrected the errors in the linkages of the MBRR cash flow tables to the *m*SCOA data strings. This has resulted in improvements in the section 71 cash flow data that were published at the end of quarter 1 of the 2020/21 MTREF. Further guidance on the application of the funding segment has also been issued in *m*SCOA Circular No. 11 on 4 December 2020.

#### 4.10 *m*SCOA Calendar for 2021/22

Important dates pertaining to *m*SCOA related activities for the 2020/21 financial year is summarised below for planning purposes:

| Activity |  | Time Frames                            |
|----------|--|--|
| 1.       | Independent System Audits  | February to December 2021              |
| 2.       | Regulation of Minimum Business Processes and System Specifications | For comments and testing: October 2021 |
| 3.       | <i>m</i> SCOA Virtual Training Sessions (various topics)           | Monthly                                |
| 4.       | Roll out of eLearning <i>m</i> SCOA course through                 | July 2020                              |

|    |  |               |
|----|--|---------------|
|    | National School of Governance                                      |               |
| 5. | Issue proposed mSCOA chart changes for version 6.6                 | October 2021  |
| 6. | Annual mSCOA CIGFARO Budgeting Workshop                            | November 2021 |
| 7. | Issuing of transversal contract for provision of financial systems | March 2022    |

## 5. The revenue budget

Similar to the rest of government, municipalities face a difficult fiscal environment. Even as demand for services rises, weak economic growth has put stress on consumers' ability to pay for services, while transfers from national government are growing more slowly than in the past. Some municipalities have managed these challenges well, but others have fallen into financial distress and face liquidity problems. These include municipalities that are unable to meet their payment obligations to Eskom, water boards and other creditors. There is a need for municipalities to focus on collecting revenues owed to them and eliminate wasteful and non-core spending. Municipal budgets will be scrutinised to ensure that municipalities adequately provide for the servicing of their debt obligations. Municipalities must ensure that expenditure is limited to the maximum revenue collected and not spend on money that they do not have.

Municipalities are reminded that the local government equitable share allocation is mainly to fund the costs of free basic services and to subsidise the administrative costs of the smaller and more rural municipalities. The increasing unemployment and growth in the number of persons per household means that the revenue foregone in respect of free basic services will likely increase, and it will become even more difficult to collect revenue. Household budgets are becoming increasingly under more pressure, and trade-offs might be applied when it becomes unaffordable to pay all household expenses on a monthly basis.

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation is forecasted to be within the lower limit of the 3 to 6 per cent target band; therefore, municipalities are required to **justify all increases in excess of the projected inflation target for 2021/22** in their budget narratives and pay careful attention to tariff increases across all consumer groups. In addition, municipalities should include a detail of their revenue growth assumptions for the different service charges in the budget narrative.

### 5.1 Maximising the revenue generation of the municipal revenue base

Reference is made to MFMA Circular No. 93, paragraph 3.1 and No. 98, paragraph 4.1. The emphasis is on municipalities to comply with Section 18 of the MFMA and ensure that they fund their 2021/22 MTREF budgets from realistically anticipated revenues to be collected. Municipalities are cautioned against assuming collection rates that are unrealistic and unattainable as this has been identified as a fundamental reason for municipalities not attaining their desired collection rates.

It is therefore essential that municipalities pay attention to reconciling the valuation roll data to that of the billing system to ensure that revenue anticipated from property rates are accurate. Municipalities are encouraged to undertake this exercise as a routine practice. The list of exceptions derived from this reconciliation will indicate where the municipality may be compromising its revenue generation in respect of property rates. A further test would be to reconcile this with the Deeds Office registry. In accordance with the MFMA Circular No. 93,



municipalities are once more requested to submit the reconciliation of the valuation roll to the financial system to the National Treasury by no later than **05 February 2021**.

The above information must be emailed to [linda.kruger@treasury.gov.za](mailto:linda.kruger@treasury.gov.za) or must be uploaded by approved registered users using the LG Upload Portal at: <https://lguploadportal.treasury.gov.za/>.

## 5.2 Setting cost-reflective tariffs

Reference is made to MFMA Circular No. 98, paragraph 4.2. The setting of cost-reflective tariffs is a requirement of Section 74(2) of the Municipal Systems Act which is meant to ensure that municipalities set tariffs that enable them to recover the full cost of rendering the service. This forms the basis of compiling a credible budget. A credible budget is one that ensures the funding of all approved items and is anchored in sound, timely and reliable information on expenditure and service delivery (FFC, 2011). Credible budgets are critical for local government to fulfil its mandate and to ensure its financial sustainability.

A credible expenditure budget reflects the costs necessary to provide a service efficiently and effectively, namely:

- An effective budget is one that is adequate to deliver a service of the necessary quality on a sustainable basis; and
- An efficient budget is one that delivers services at the lowest possible cost.

Municipalities are encouraged to utilise the tariff setting tool referenced in MFMA Circular 98, item 4.2. This tool will assist in setting tariffs that are cost-reflective and would enable municipalities to recover costs to fulfil its mandate. The National Treasury Municipal Costing Guide is also available on the link below on the National Treasury website.

<http://mfma.treasury.gov.za/Guidelines/Documents/Forms/AllItems.aspx?RootFolder=%2fGuidelines%2fDocuments%2fMunicipal%20Costing%20Guide&FolderCTID=0x0120004720FD2D0551AE409361D6CB3E122A08>

## 5.3 Bulk Account Payments - Eskom Concessions

During 2018/19, intense work had been undertaken to resolve systemic and structural issues pertaining to the electricity function in municipalities. Core to this work was addressing the escalating Eskom debt that threatened the sustainability of Eskom as well as that of municipalities.

During the process, Eskom was engaged on providing relieve in certain areas. Municipalities must be made aware that the following concessions were agreed upon:

- Reducing the interest rate charged on overdue municipal bulk accounts from prime plus 5 per cent to prime plus 2.5 per cent;
- Payment terms being extended from 15 days to 30 days for municipal bulk accounts; and
- Payments received from municipalities will be allocated to capital first and then the interest.

These concessions are aligned to the MFMA and are meant to curb the growing debt levels by allowing municipalities a more conducive payment regime than what was previously employed. In addition, municipalities are encouraged to budget for bulk services and honour their current account payments religiously to avoid stringent application of the bulk suppliers' credit control policy.

#### 5.4 Timeous allocations and clearing of the control accounts

Municipalities are encouraged to clear the control accounts on a monthly basis and to allocate trade and other receivable payments in these suspense accounts to the relevant debtor accounts regularly before the monthly submissions as required by the MFMA. Implementing and enforcing the credit control policy of the municipality whilst payments are not cleared in the control account is negligent and irresponsible. Municipalities are warned against this bad practice, and this must be avoided at all costs.

#### 5.5 Eskom Bulk Tariff increases

The National Energy Regulator of South Africa (NERSA) is responsible for price determination of the bulk costs for electricity. In March NERSA approved a municipal tariff increase of 6.9 per cent effective 1 July 2020 (1.2 per cent lower than the tariff increase in Multi-Year Price Determination (MYPD) 4 period due to differences in municipal and national financial years).

Municipalities are advised to use the tariff increases previously (March 2019) approved by the Regulator of 5.2 per cent 2021/22, 8.9 per cent for 2022/23 and 8.9 per cent in 2023/24 (for 2023/24, an average annual tariff increase is used for the National Energy Regulator of South Africa's multi-year price determination period of 1 April 2019 to 31 March 2022). The outer year is anticipated to be the first year of the MYPD 5 period, which is yet to be published.

### 6. Funding choices and management issues

Municipalities are under pressure to generate revenue as a result of the economic landscape, the COVID-19 pandemic, weak tariff setting and increases in key cost drivers to provide basic municipal services. The ability of customers to pay for services is declining and this means that less revenue will be collected. Therefore, municipalities must consider the following when compiling their 2021/22 MTREF budgets:

- Improving the effectiveness of revenue management processes and procedures;
- Cost containment measures to, amongst other things, control unnecessary spending on nice-to-have items and non-essential activities as highlighted in the Municipal Cost Containment Regulations read with MFMA Circular No. 82;
- Ensuring value for money through the procurement process;
- The affordability of providing free basic services to all households;
- Not taking on unfunded mandates; and
- Curbing the consumption of water and electricity by the indigents to ensure that they do not exceed their allocation.

Accounting officers are reminded of their responsibility in terms of section 62(1)(a) of the MFMA to use the resources of the municipality effectively, efficiently and economically. Failure to do this will result in the accounting officer committing an act of financial misconduct which will trigger the application of chapter 15 of the MFMA, read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

#### 6.1 Employee related costs

The *Salary and Wage Collective Agreement* for the period 01 July 2018 to 31 June 2020 has come to an end and a new agreement is under consultation, which we hope will take into account the current fiscal constraints faced by government. Therefore, in the absence of any information in this regard from the South African Local Government Bargaining Council (SALGBC), municipalities are advised to take into account their financial sustainability when considering salary increases. It has been observed over the previous years that salary

increases were above inflation. In addition, municipalities that could not afford such increases did not apply for exemption as provided by SALGBC. Given the current economic condition exacerbated by the COVID-19 pandemic, municipalities are urged to consider projecting increases to wage that would reflect their affordability as many municipalities that are already not in a position to afford the current wage cost would indeed have to apply no more than zero per cent increase in the 2021/22 MTREF and to exercise the option for exemption for any negotiated increase above the level of their affordability.

## **6.2 Remuneration of councillors**

Municipalities are advised to budget for the actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance. It is anticipated that this salary determination will also take into account the fiscal constraints. Municipalities should also consider guidance provided above on salary increases for municipal officials during this process.

## **7. Conditional Grant Transfers to Municipalities**

### **7.1 Non-compliance of in-year monitoring**

In terms of Section 74(1) of the MFMA, municipalities must submit to the transferring officers, National and Provincial treasuries documents and monthly grant reports as may be prescribed or required. The *m*SCOA Regulations requires the uniform recording and classification of municipal budget and financial information at a transaction level in the form of a *m*SCOA data string that must be submitted to the LG Upload portal. Most municipalities are still not reporting on conditional grants as per the *m*SCOA requirements. As per MFMA Circular No 93, the National Treasury has only used *m*SCOA data strings as the source of data for publications on municipal financial performance from 1 July 2019. The *m*SCOA data strings will also be the main source of data that will be used to monitor the performance against grants and to inform decisions on the stopping and reallocation of conditional grants funding in the 2021/22 MTREF. The credibility of the *m*SCOA data strings reporting on grants will be closely monitored going forward.

Furthermore, section 12(2) of the Division of Revenue Act, 2020 (Act No. 4 of 2020) (DoRA) states that the municipality, as part of the report required in terms of section 71 of the MFMA, report on the matters referred to in subsection (4) and submit a copy of that report to the relevant provincial treasury, the National Treasury and the relevant Transferring Officer.

Some municipalities have not been complying with the reporting requirements as stipulated above. Municipalities are reminded that the non-submission of monthly reports translates to non-compliance with the MFMA and DoRA. The National Treasury and Transferring Officer will be implementing stringent measures to municipalities that do not comply with the prescripts. This includes, but is not limited to, the stopping and reallocation of conditional grants funding of non-compliant municipalities. Municipalities are encouraged to comply with the reporting requirements to avoid withholding or stopping of an allocation.

In terms of performance reporting on conditional grants, municipalities and Transferring Officers are urged to pay particular attention to the contents of money spent against conditional grants. Government is not realising full value for money against the substantial investments it makes through grants.

## 8. The Municipal Budget and Reporting Regulations

### 8.1 Ensuring municipal sustainability through a funded budget

A budget is funded from realistically anticipated revenues to be collected, cash backed accumulated funds from the previous year as well as borrowed funds to be utilised for capital projects. A budget is realistic if it takes into account projected revenue for the current year based on the collection levels to date and actual revenue collected in the previous financial year. Municipal budgets must be prepared on this basis. The economic climate and the impact of COVID-19 pandemic had an effect on the ability of municipalities to collect arrear debt during levels 5, 4 and 3 of the national lockdown. This inability to exercise credit control measures during this period had decreased the collection rate in many municipalities.

Municipalities need to be proactive in exercising credit control measures to ensure that arrear debt is collected. Whilst collection rates decreased during the period mentioned above, municipalities must implement efforts to collect arrear debt and return collection rates to pre-COVID-19 levels. Whilst this unprecedented COVID-19 period is the exception, collection rates need to be maintained at 95 per cent in order to ensure the financial sustainability of municipalities. If collection rates have decreased, prudent financial management requires expenditure to be adjusted downward accordingly. This is to ensure that deficits are not realised and that realistically anticipated revenue based on projected collection rates funds expenditure. This will also ensure financial sustainability and avoid situations of financial distress in municipalities.

The Municipal Systems Act states that a municipal council must adopt, maintain and implement a credit control and debt collection policy that would be utilised for the collection of money that is due and payable to it. The municipal Councillors therefore are the custodians of the policy and responsible for its implementation. As a result, Councillors are required to encourage consumers in their municipal jurisdiction to pay for municipal services and to ensure that such debt that is due and payable to the municipality is collected. This would ensure compliance with the Act and ensure that a culture of payment is implemented in the municipal area. Council needs to play an active role in implementing their adopted policies to increase collection rates and ensure that funds are received to render services to the people.

Municipalities are reminded to develop a credible funding plan where the budget is unfunded. This plan must be tabled in and adopted by Council with the 2021/22 MTREF budget and submitted to the National and provincial treasuries when they submit their tabled and adopted budget in terms of Section 22(b)(i) and 24 (3) of the MFMA. Failure to approve a credible plan will result in the invoking of Section 216(2) of the Constitution.

### 8.2 Budgeting for indirect grant allocations

Some municipalities continue to budget for allocations not directly allocated to them as revenue in the Statement of Financial Performance. This results in revenue being overstated. Therefore, municipalities must refrain from budgeting for indirect grant allocations. A municipality must only budget for the allocations that are directly allocated and transferred to them.

### 8.3 Monthly reporting of debtors

National Treasury has observed through in-year monitoring that most municipalities are overstating debtors as they report on gross debtors instead of net. The format of the monthly debtors' data strings provides for a column to disclose provision for impairment as per council policy. Therefore, municipalities are urged to always reflect the provision for impairment in the column as indicated above for National Treasury to be able to reconcile the net debtors.

#### 8.4 Schedule A - version to be used for the 2021/22 MTREF

National Treasury has released Version 6.5 of the Schedule A1 (the Excel Formats) which is aligned to Version 6.5 of the *m*SCOA classification framework and must be used when compiling the 2021/22 MTREF budget.

It is imperative that all municipalities prepare their 2021/22 MTREF budgets in their financial systems and that the Schedule A1 be produced directly from their financial system. Vendors have demonstrated their budget modules to the National Treasury and provincial treasuries. All financial systems have this functionality to assist and prepare budgets and to generate the prescribed Schedule A1 directly from the financial system. Therefore, there is no reason why the 2021/22 MTREF budget must be done manually. National Treasury has protected the A1 schedule version 6.5, therefore manual population will not be allowed as the schedule must be extracted from the financial system.

**ALL municipalities MUST** prepare their 2021/22 MTREF tabled and adopted budgets using the A1 schedule version 6.5.

Municipalities must start early enough to capture their tabled budget (and later the adopted budget) in the budget module provided and must ensure that they produce their Schedule A1 directly out of the budget module. **Manual capturing on A1 schedule version 6.5 is not allowed** in terms of the *m*SCOA Regulations.

The National Treasury has indicated in MFMA Circular No. 93 that municipalities must submit all A1 Schedules in PDF format only from the 2019/20 MTREF. Given the fact that the *m*SCOA classification framework makes it possible to generate the financial data required in the A1 schedule directly from the data strings and that additional data needed must be obtained from sub-systems that integrate with the financial system, the National Treasury will only accept the prescribed data string containing the supporting data, populated and uploaded by each municipality. National Treasury published the layout for the data string on the website in MFMA Budget Circular No. 98 and an amended version to be used for the 2021/22 MTREF forms part of this circular. The publication in the 2020/21 MTREF of non-financial data will be done using the supporting data uploaded from these data strings.

The National Treasury **will no longer gather supporting data from the MBRR A1 Schedules** but will expect each municipality to **submit the prescribed supporting data strings** containing the required data using the LG Upload Portal.

The budget, adjustments budget and Section 71 monthly reporting Schedules that have been regulated in terms of the MBRR have also been aligned to the *m*SCOA chart version 6.5 changes. The revised MBRR Schedules for the 2021/22 MTREF and its linkages to the data string are available on the link below:

<http://cenvappsp10:31200/RegulationsandGazettes/Municipal%20Budget%20and%20Reporting%20Regulations/Documents/Forms/AllItems.aspx?RootFolder=%2fRegulationsandGazettes%2fMunicipal%20Budget%20and%20Reporting%20Regulations%2fDocuments%2f2020%2d21&FolderCTID=0x0120001860D4A2BD7AD042BF8427FC3BB59F67>

The Municipal Budget and Reporting Regulations, formats and associated guides are available on National Treasury's website at:

<http://mfma.treasury.gov.za/RegulationsandGazettes/Pages/default.aspx>

## 8.5 Assistance with the compilation of budgets

If municipalities require advice with the compilation of their respective budgets, specifically the budget documents or Schedule A1, they should direct their enquiries to their respective provincial treasuries or to the following National Treasury officials:

| Province                               | Responsible NT officials   | Tel. No.                                     | Email  |
|--|--|--|--|
| Eastern Cape<br>Buffalo City           | Matjatji Mashoeshoe<br>Mandla Gilimani                               | 012-315 5553<br>012-315 5807                 | <a href="mailto:Matjatji.Mashoeshoe@treasury.gov.za">Matjatji.Mashoeshoe@treasury.gov.za</a><br><a href="mailto:Mandla.Gilimani@treasury.gov.za">Mandla.Gilimani@treasury.gov.za</a>   |
| Free State                             | Cethekile Moshane  | 012-315 5079                                 | <a href="mailto:Cethekile.moshane@treasury.gov.za">Cethekile.moshane@treasury.gov.za</a>   |
| Gauteng<br>Johannesburg and<br>Tshwane | Kgomotso Baloyi<br>Kevin Bell<br>Willem Voigt                        | 012-315 5866<br>012-315 5725<br>012-315 5830 | <a href="mailto:Kgomotso.Baloyi@treasury.gov.za">Kgomotso.Baloyi@treasury.gov.za</a><br><a href="mailto:Kevin.Bell@treasury.gov.za">Kevin.Bell@treasury.gov.za</a><br><a href="mailto:WillemCordes.Voigt@treasury.gov.za">WillemCordes.Voigt@treasury.gov.za</a>   |
| KwaZulu-Natal<br>eThekweni             | Kgomotso Baloyi<br>Mpati Rakgwale<br>Una Rautenbach<br>Abigail Maila | 012-315 5866<br>012-315 5700                 | <a href="mailto:Kgomotso.Baloyi@treasury.gov.za">Kgomotso.Baloyi@treasury.gov.za</a><br><a href="mailto:Mpati.Rakgwale@treasury.gov.za">Mpati.Rakgwale@treasury.gov.za</a><br><a href="mailto:Una.Rautenbach@treasury.gov.za">Una.Rautenbach@treasury.gov.za</a><br><a href="mailto:Abigail.Maila@treasury.gov.za">Abigail.Maila@treasury.gov.za</a> |
| Limpopo                                | Willem Voigt<br>Sifiso Mabaso  | 012-315 5830<br>012-315 5952                 | <a href="mailto:WillemCordes.Voigt@treasury.gov.za">WillemCordes.Voigt@treasury.gov.za</a><br><a href="mailto:Sifiso.Mabaso@treasury.gov.za">Sifiso.Mabaso@treasury.gov.za</a>   |
| Mpumalanga                             | Mandla Gilimani<br>Stanley Malele                                    | 012-315 5807                                 | <a href="mailto:Mandla.Gilimani@treasury.gov.za">Mandla.Gilimani@treasury.gov.za</a><br><a href="mailto:Stanley.Malele@treasury.gov.za">Stanley.Malele@treasury.gov.za</a>   |
| Northern Cape                          | Mandla Gilimani<br>Phumelele Gulukunqu                               | 012-315 5807<br>012 315 5539                 | <a href="mailto:Mandla.Gilimani@treasury.gov.za">Mandla.Gilimani@treasury.gov.za</a><br><a href="mailto:Phumelele.Gulukunqu@treasury.gov.za">Phumelele.Gulukunqu@treasury.gov.za</a>   |
| North West                             | Willem Voigt<br>Makgabo Mabotja                                      | 012-315 5830<br>012-315 5156                 | <a href="mailto:WillemCordes.Voigt@treasury.gov.za">WillemCordes.Voigt@treasury.gov.za</a><br><a href="mailto:Makgabo.Mabotja@treasury.gov.za">Makgabo.Mabotja@treasury.gov.za</a>   |
| Cape Town<br>George                    | Kgomotso Baloyi<br>Willem Voigt and<br>Mandla Gilimani               | 012-315 5866<br>012-315 5830<br>012-315 5807 | <a href="mailto:Kgomotso.Baloyi@treasury.gov.za">Kgomotso.Baloyi@treasury.gov.za</a><br><a href="mailto:WillemCordes.Voigt@treasury.gov.za">WillemCordes.Voigt@treasury.gov.za</a><br><a href="mailto:Mandla.Gilimani@treasury.gov.za">Mandla.Gilimani@treasury.gov.za</a>   |
| Technical issues<br>with Excel formats | Elsabe Rossouw   | 012-315 5534                                 | <a href="mailto:lgdataqueries@treasury.gov.za">lgdataqueries@treasury.gov.za</a>   |

National and provincial treasuries will analyse the credibility of the data string submissions.

## 8.6 Assessing the 2021/22 MTREF budget

National and provincial treasuries will assess the 2021/22 MTREF budgets to determine if it is complete, funded and complies with the *m*SCOA requirements. The *m*SCOA data strings for the tabled (TABB) and adopted (ORGB) budgets will be used for this assessment.

The **assessment period** of all municipal budget will therefore be from **31 May to 30 June**. In this one-month period, the National and provincial treasuries will evaluate all municipal budgets for completeness and for being fully funded. Any adjustment that need to be made must be done before the start of the municipal financial year on 1 July.

Importantly, in order to generate an adopted budget (ORGB) data string, the budget must be locked on the financial system by the 10<sup>th</sup> working day of July each year. Therefore, once the ORGB data string has been generated, errors in the ORGB can only be corrected via an adjustments budget in February of each year. In terms of the design principles of *m*SCOA, municipalities are not allowed to open the budget on the system for corrections after it has been locked. This means that the tabled budget data string (TABB) should in fact be verified and errors in the TABB should be corrected in the ORGB **before the adopted budget is locked on the financial system and the ORGB data string is generated.**

The previous verification process and timeframes (i.e. July to September) can no longer be applied as municipalities are already transacting against the adopted and locked budget from 01 July 2020.

Amending an unfunded, incomplete and erroneous budget through an adjusted budget is also not encouraged as the National Treasury only considers an adjusted budget in the third and fourth quarter of the financial year for analysis and publication purposes. This will result in overspending and unauthorised expenditure not been monitored in the first six months of the financial year.

Municipal managers are reminded that the annual budget must be accompanied by a quality certificate and council resolution, as well as a budget locking certificate (in the case of the adopted budgets) in accordance with the format specified in Regulation 31 of Schedule A of the MBRR. The A1 schedule must be included as part of the budget documentation in pdf format.

The National Treasury would like to emphasise that ***where municipalities have adopted an unfunded budget without a credible funding plan, they will be required to correct the budget and go back to the Municipal Council to ensure they adopt and implement a funded budget as required in terms of Section 18 of the MFMA.***

Municipalities with municipal entities are once again reminded to prepare consolidated budgets and in-year monitoring reports for both the parent municipality and its entity or entities. The following must be compiled:

- An annual budget, adjustments budget and monthly financial reports for the parent municipality in the relevant formats;
- An annual budget, adjustments budget and monthly financial reports for the entity in the relevant formats; and
- A consolidated annual budget, adjustments budget and monthly financial reports for the parent municipality and all its municipal entities in the relevant formats.

The budget and data strings that the municipality submits to National Treasury must be a consolidated budget for the municipality (including entities). The budget of each entity must be submitted on the D schedule in pdf format.

In the past it was noted that municipalities have challenges to align the audited outcomes on the financial system to A1 Schedule. Municipalities must ensure that the audited figures and adjusted budget figures captured on the A1 Schedule aligns to the annual financial statements and Schedule B respectively.

## **9. Budget process and submissions for the 2021/22 MTREF**

### **9.1 Submitting budget documentation and A1 schedules for 2021/22 MTREF**

To facilitate oversight of compliance with the Municipal Budget and Reporting Regulations, accounting officers are reminded that:

- Section 22(b)(i) of the MFMA requires that, ***immediately*** after an annual budget is tabled in a municipal council, it must be submitted to the National Treasury and the relevant provincial treasury in electronic formats. If the annual budget is tabled to council on **31 March 2021**, the final date of submission of the electronic budget documents and corresponding mSCOA data strings is **Thursday, 01 April 2021**.

Section 24(3) of the MFMA, read together with regulation 20(1) of the MBRR, requires that municipalities must submit the approved annual budget to both National Treasury and the relevant provincial treasury **within ten working days** after the council has approved the annual budget. E.g. if the council approves the annual budget on **31 May 2021**, given the new timeframe for the evaluation of the municipal budgets, the adopted budget data strings and documentation must be submitted by the latest **Monday, 14 June 2020**.

**Municipalities are no longer expected to submit hard copies of all required documents including budget-related, Annual Financial Statements and Annual Reports to National Treasury via post or courier services. Hard copies must be submitted in pdf format to the LG Upload portal.**

## 9.2 Expected submissions for 2021/22 MTREF

- The budget documentation as set out in the MBRR. The budget document must include the main A1 Schedule Tables (A1 - A10);
- The non-financial supporting tables (A10, SA9, SA11, SA12, SA13, SA24 and any other information not contained in the financial data string) in the A1 in the prescribed *m*SCOA data string in the format published with Version 6.5 of the A1 schedule;
- The draft and final service delivery and budget implementation plan (SDBIP) in electronic PDF format;
- The draft and final IDP;
- The council resolution for the tabled and adopted budgets;
- Signed Quality Certificate as prescribed in the MBRR for the tabled and adopted budgets;
- D Schedules specific for the entities; and
- A budget locking certificate immediately at the start of the new municipal financial year on 1 July.

Budget-related documents and schedules must be uploaded by approved registered users using the LG Upload Portal at: <https://lguploadportal.treasury.gov.za/>. It should be emphasised that municipalities should submit all required documents to the LG Upload portal and not to [lgdocuments@treasury.gov.za](mailto:lgdocuments@treasury.gov.za). National Treasury will retire [lgdocuments@treasury.gov.za](mailto:lgdocuments@treasury.gov.za) on 1 July 2021 to ensure that there is a single collection point of municipal financial data.

Also note that the LG Upload Portal does not have the same size restrictions encountered with [lgdocuments@treasury.gov.za](mailto:lgdocuments@treasury.gov.za) but requires all documents to:

1. Be in PDF format only; and
2. Each PDF file must NOT contain multiple document e.g. council resolution and quality certificate within the budget document. Each document type must be identified clearly and uploaded separately.

Any problems experienced with the submission of documents can be addressed with Elsabe Rossouw at [Elsabe.Rossouw@treasury.gov.za](mailto:Elsabe.Rossouw@treasury.gov.za).

The 2020/21 MTREF and the preliminary Quarter 1 Section 71 results for the 2020/21 financial year that has recently been published, have indicated that the credibility of the *m*SCOA data strings is still a concern although we have observed a marked improvement in some areas. At the core of the problem is:



- The incorrect use of the *m*SCOA chart and segments, balance sheet budgeting, movement accounting and basic municipal accounting practices by municipalities;
- Some municipalities are not budgeting, transacting and reporting directly in/from their core financial systems; and
- Municipalities are not locking their adopted budgets and their financial systems at month-end to ensure prudent financial management. To enforce municipalities to lock their budgets and close their financial system at month-end in 2020/21, the Local Government Database and Reporting System will lock all submission periods within the reporting period at the end of each quarter. The published period will NOT be opened again to ensure consistency between publications. System vendors were also requested to build this functionality into their municipal financial systems.

To improve the credibility of these data string, National and provincial treasuries are analysing the accuracy of the data strings and the use of the six regulated segments. The National Treasury has developed tools to analyse the segment/chart use and trained budget analysts from both National and provincial treasuries on the use thereof. To date, the analysis has highlighted that municipalities are not using the FUND, REGION and COSTING segments correctly. In many instances, these segments are simply defaulted which impedes the multi-dimensional reporting power of the *m*SCOA classification framework. Another common area of concern is that total capital expenditure do not balance to total funding. Currently, the expenditure is much higher than the available funding reported.

It needs to be noted that the single source for all analysis and publications will be the data strings submitted by the municipalities for the 2020/21 municipal financial year. It is therefore imperative that municipalities ensure the credibility and accuracy of the data strings before submission.

### **9.3 Publication of budgets on municipal websites**

In terms of section 75 of the MFMA, all municipalities are required to publish their tabled budgets, adopted budgets, annual reports (containing audited annual financial statements) and other relevant information on the municipality's website. This will aid in promoting public accountability and good governance.

All relevant documents mentioned in this circular are available on the National Treasury website, <http://mfma.treasury.gov.za/Pages/Default.aspx>. Municipalities are encouraged to visit it regularly as documents are regularly added / updated on the website.

### **9.4 Communication by municipal entities to National Treasury**

Municipal entities should not request meetings directly from National Treasury. National Treasury will only engage the entities through the parent municipalities. This includes all communications apart from the legislative reporting requirements.

## Contact



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**04 December 2020**



## Municipal Budget Circular for the 2021/22 MTREF

### CONTENTS

|   |           |
|---|-----------|
| <b>1. THE SOUTH AFRICAN ECONOMY AND INFLATION TARGETS.....</b>                                | <b>2</b>  |
| <b>2. KEY FOCUS AREAS FOR THE 2021/22 BUDGET PROCESS .....</b>                                | <b>3</b>  |
| 2.1 CHANGES TO LOCAL GOVERNMENT ALLOCATIONS.....  | 3         |
| <b>3. 2021 LOCAL GOVERNMENT ELECTIONS AND THE BUDGET PROCESS.....</b>                         | <b>4</b>  |
| 3.1 TRANSITIONAL PROCESSES - DEVELOPMENT AND ADOPTION OF IDPs DURING THE 2021 ELECTION YEAR 4 |           |
| 3.2 HAND-OVER REPORTS FOR THE NEWLY ELECTED COUNCILS.....                                     | 4         |
| <b>4. MUNICIPAL STANDARD CHART OF ACCOUNTS (MSCOA) .....</b>                                  | <b>5</b>  |
| 4.1 OPENING BALANCES .....  | 5         |
| 4.2 SURPLUS OR DEFICIT JOURNALS.....  | 5         |
| 4.3 ROLLOVERS AND REPAYMENT OF UNSPENT GRANTS .....   | 5         |
| <b>5. THE REVENUE BUDGET .....</b>  | <b>6</b>  |
| 5.1 ESKOM BULK TARIFF INCREASES.....  | 6         |
| <b>6. FUNDING CHOICES AND MANAGEMENT ISSUES.....</b>  | <b>6</b>  |
| 6.1 EMPLOYEE RELATED COSTS .....  | 7         |
| 6.2 REMUNERATION OF COUNCILLORS.....  | 7         |
| 6.3 PAYMENT OF DANGER ALLOWANCE TO THE EMPLOYEES.....   | 7         |
| 6.4 MAYOR'S DISCRETIONARY FUNDS AND SIMILAR DISCRETIONARY BUDGET ALLOCATIONS .....            | 8         |
| <b>7. CONDITIONAL GRANT TRANSFERS TO MUNICIPALITIES.....</b>                                  | <b>9</b>  |
| 7.1 CRITERIA FOR THE ROLLOVER OF CONDITIONAL GRANT FUNDS .....                                | 9         |
| 7.2 ROLLOVER REQUEST AGAINST THE COVID-19 ALLOCATED THROUGH THE EQUITABLE SHARE.....          | 10        |
| 7.3 UNSPENT CONDITIONAL GRANT FUNDS FOR 2020/21 .....   | 11        |
| 7.4 IMPORTANCE OF SECTION 17 OF THE DIVISION OF REVENUE ACT.....                              | 12        |
| <b>8. THE MUNICIPAL BUDGET AND REPORTING REGULATIONS.....</b>                                 | <b>13</b> |
| 8.1 SERVICE LEVEL STANDARDS .....   | 13        |
| 8.2 ASSISTANCE WITH THE COMPILATION OF BUDGETS .....  | 13        |
| <b>9. BUDGET PROCESS AND SUBMISSIONS FOR THE 2021/22 MTREF .....</b>                          | <b>14</b> |
| 9.1 SUBMITTING BUDGET DOCUMENTATION AND A1 SCHEDULES FOR 2021/22 MTREF .....                  | 14        |
| 9.2 CONSOLIDATED BUDGETS AND REPORTS .....  | 14        |
| 9.3 SUBMISSION USING LG UPLOAD PORTAL .....   | 15        |
| 9.4 PUBLICATION OF BUDGETS ON MUNICIPAL WEBSITES .....  | 15        |
| <b>ANNEXURE A: TREATMENT OF ROLLOVERS AND REPAYMENT OF UNSPENT GRANTS IN MSCOA .....</b>      | <b>16</b> |

## Introduction

This budget circular is a follow-up to the one issued in December 2020. It guides municipalities with their preparation of the 2021/22 Medium Term Revenue and Expenditure Framework (MTREF) and, as with previous annual budget circulars, it should be read within this context. This Circular is linked to the Municipal Budget and Reporting Regulations (MBRR) and the municipal Standard Chart of Accounts (*mSCOA*); and strives to support municipalities' budget preparation processes so that the minimum requirements are achieved. The key focus of this Circular is the grant allocations per the 2021 Budget Review and the 2021 Division of Revenue Bill.

Municipalities are reminded to refer to the previous years' annual budget circulars for guidance on budget preparation that is not covered in this circular.

### 1. The South African economy and inflation targets

The South African economy contracted by an estimated 7.2 per cent in 2020 compared with the 7.8 per cent contraction projected in the 2020 Medium Term Budget Policy Statement (MTBPS). The revised estimate results from easing lockdown restrictions in the third quarter and a faster-than-expected resumption of global growth, especially in China. The National Treasury projects real economic growth of 3.3 per cent in 2021, following an estimated contraction of 7.2 per cent in 2020. Real GDP growth is expected to moderate to 1.9 per cent in 2022 and 2023.

The outlook remains highly uncertain, and the economic effects of the pandemic are far-reaching. There were 1.7 million fewer jobs by the third quarter of 2020 compared to the same period in 2019. Rising unemployment and income losses have entrenched existing inequalities. GDP is only expected to recover to pre-pandemic levels in late 2023. High-frequency data for the third quarter, such as the volume of electricity distributed, mining and manufacturing output, business confidence and the ABSA Purchasing Managers' Index (PMI) shows evidence of a limited economic rebound.

Although growth rates are likely to improve quickly as restrictions are removed, based on current projections, the output is only expected to return to pre-pandemic levels in 2024. Given South Africa's structural constraints, its recovery will be slower than many of its developing-country peers. Industrial sectors (which include mining, manufacturing, construction and utilities) lagged substantially, undermined by structural constraints including unreliable electricity supply and weak public investment that preceded the pandemic. Over the next several years, the country requires the implementation of long-standing structural reforms to sustainably move to a higher growth path.

These economic challenges will continue to exert pressure on municipal revenue generation and collection levels; hence a conservative approach is advised for revenue projections.

The following macro-economic forecasts must be considered when preparing the 2021/22 MTREF municipal budgets.

**Table 1: Macroeconomic performance and projections, 2019 - 2023**

| Fiscal year   | 2019/20 | 2020/21  | 2021/22  | 2022/23 | 2023/24 |
|---------------|---------|----------|----------|---------|---------|
|               | Actual  | Estimate | Forecast |         |         |
| CPI Inflation | 4.1%    | 3.3%     | 3.9%     | 4.2%    | 4.4%    |

Source: 2021 Budget Review.

Note: the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.

## 2. Key focus areas for the 2021/22 budget process

### 2.1 Changes to local government allocations

Over the next three years, municipalities will have to adjust to significant changes in expenditure plans while improving accountability. The 2021 Budget protects transfers that focus on infrastructure, service delivery and COVID-19 spending while reducing those spent less effectively. The 2021 Budget includes funding for initiatives to improve municipal revenue collection and support financially distressed municipalities.

Transfers to local government over the medium-term account for **9.4 per cent** of nationally raised funds after providing for debt-service costs, the contingency reserve and provisional allocations. Local government's share of revenue has risen in relative terms because reductions to the public-service wage bill affect only national and provincial government. Local government transfers grow by an annual average of 5.2 per cent over the MTEF; the equitable share declines by 4.4 per cent and conditional grants grow by 7.3 per cent. As part of government's fiscal consolidation policies over the medium term, transfers to local government are reduced by R19.4 billion, including R14.7 billion from the local government equitable share, R2.7 billion from the general fuel levy and R2 billion in direct conditional grants.

#### **Conditional grants**

The reduction to direct conditional grants includes R329 million from the *municipal infrastructure grant* and R21 million from the *integrated urban development grant*. These amounts have been reprioritised from underspending grants to fund a once-off councillor gratuity for non-returning councillors. The largest proportional reduction of R1.3 billion to local government grants has been made in the *public transport network grant*, because only six of the 13 cities receiving the grant have successfully launched public transport systems. Indirect conditional grants are reduced by R286 million over the period.

Government continues to reform the system of conditional grant transfers to local government based on the principles set out in the 2019 Budget Review. In 2021, government will expand the scope of the *municipal infrastructure grant* to allow municipalities to use up to 5 per cent of their allocation to develop infrastructure asset management plans. This change addresses poor asset management in municipalities.

In 2020, the *integrated city development grant* was repurposed to assist cities to build internal capacity or obtain technical support to prepare and package key infrastructure projects. This will continue in 2021 and private sector participation will be encouraged in these projects.

Two standalone *informal settlement upgrading grants* for provinces and municipalities will be introduced from 2021/22. These grants are made up of components previously within the *human settlements development grant* and the *urban settlements development grant* for provinces and municipalities respectively. In addition, the Municipal Systems Improvement Grant scope is extended to fund comprehensive institutional diagnostic assessments of the 21 district areas where the district municipality is a water service authority and the development of institutional improvement/ support plans that will inform all future capacity development programmes and municipal support initiatives to enhance the continued rollout of the rollout of the District Development Model (DDM).

Municipalities are reminded that all allocations included in their budgets must correspond to the allocations listed in the Division of Revenue Bill. All the budget documentation can be accessed from the National Treasury website by clicking on the link below:

<http://www.treasury.gov.za/documents/national%20budget/2021/>

### 3. 2021 Local Government Elections and the budget process

Municipalities are advised to refer to MFMA Circular No. 107 on risks related to the Local Government elections and issues to be considered in compiling the 2021/22 MTREF in addition to the information provided below.

#### 3.1 Transitional processes - development and adoption of IDPs during the 2021 election year

The 2020/21 municipal financial year represents the last year of the current municipal councils' electoral term. Therefore, the next municipal election to usher in new councils is expected to take place between August and November 2021 in terms of the Section 24 (2) of the Municipal Structures Act, 2000 (Act No. 32 of 2000) (MSA).

It is acknowledged that the period within which the coming election's date is expected takes place after the start of a new financial year. This particular scenario poses a latent challenge in so far as adherence to legislated timeframes with regard to the adoption of the 5-year Integrated Development Plan (IDP) and the subsequent implementation.

Given the fact that the IDP and budget would need to be reviewed and adopted by 30 June 2021, the current council has an obligation to ensure that these stipulations are complied with. In this regard, the current council will be expected to continue reviewing the IDP and ensuring that it is adopted within the legislated timeframe.

Section 25 (3) of the MSA does allow the municipal council to adopt the IDP of the preceding council. However, should the incoming councils be unhappy with the priorities set out by the current council, in this case, municipal councils are advised to consider the existing adopted IDP and resolve to initiate or not to initiate an amendment procedure as guided by the MSA and the Municipal Performance and Planning Regulations (2001).

The Department of Cooperative Governance (DCoG), through the Chief Directorate: Development Planning, is rolling out the revised IDP guidelines to municipalities. These guidelines are aimed to, amongst others, guide municipalities with regards to the adoption of IDPs during an election year.

#### 3.2 Hand-over reports for the newly elected councils

Each municipal manager, working together with the CFO and senior managers, is encouraged to prepare a hand-over report that can be tabled at the first meeting of the newly elected council. This hand-over report aims to provide the new councils important orientation information regarding the municipality, the state of its finances, service delivery and capital programme, as well as key issues that need to be addressed.

It is proposed that the hand-over report should include:

- An overview of the demographic and socio-economic characteristics of the municipality;
- An overview of the organisational structure of the municipality, with the names and numbers of senior managers;
- An overview of key municipal policies that councillors need to be aware of and where they can obtain the full text of such policies;
- An overview of issues that still need to be addressed in relation to the municipality's turnaround strategy;
- An overview of the municipality's financial health, with specific reference to:
  - Its cash and investments, and its funding of commitments (Table A8);
  - Cash coverage of normal operations (see Supporting Table SA10);

- Creditors outstanding for more than 30 days, along with reasons for delayed settlement;
- Current collection levels and debtors outstanding for more than 30 days; and
- Extent of existing loans and associated finance and redemption payments.
- The municipality's 2019/20 audit outcome and its strategy to address audit issues;
- An overview of the provision of basic services, including plans to address backlogs;
- An overview of the state of the municipality's assets, with particular reference to the asset management plan, and repairs and maintenance requirements;
- A list of the main infrastructure projects planned for the 2021/22 budget and MTREF;
- A list of key processes requiring council input over the next six months, e.g. revision of the IDP, approval of specific policies etc. and
- Any other information deemed to be important.

In addition to the hand-over report, each new councillor should be given the municipalities' revised IDP, the adopted 2021/22 MTREF budget, the mid-year budget and performance assessment report for 2020/21, and the latest monthly financial statement, and the annual report for 2019/20.

Municipal managers should submit their municipality's hand-over report to the relevant provincial department responsible for local government, to the Department of Co-operative Governance (DCoG) and National and Provincial Treasuries.

## 4. Municipal Standard Chart of Accounts (*mSCOA*)

### 4.1 Opening balances

It was noted that some municipalities are not transferring their opening balances consistently to the current year of transacting. Opening balances for the previous year must be transferred in the first month (M01) of the current year, and all adjustments made during the preparation of the annual financial statements in period 14 and 15 must be transferred through journals to the opening balances of the current year in the month that it becomes apparent. When municipalities are not doing this correctly and consistently, it compromises the credibility of the *mSCOA* data strings submitted.

Importantly, journals may only be passed in the core financial system and not in 3<sup>rd</sup> party sub-systems.

### 4.2 Surplus or deficit journals

The Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and MBRR require that municipalities perform their month-end reconciliations at the end of every month before they submit their financial performance information to the National Treasury. Surplus or deficit journals must be passed monthly before a data string is generated to ensure that the financial system remains in balance. The monthly data strings reflected in the Statement of Financial position (table C6 of the regulated C Schedules) will not be in balance for those municipalities that are not doing this, and their *mSCOA* data strings will therefore not be accurate.

Municipalities must also reconcile their creditors and debtors and all month-end processes **before** they submit their monthly data strings to ensure that the data submitted to the National Treasury Local Government Database is credible.

### 4.3 Rollovers and repayment of unspent grants

Municipalities are required to use the correct posting levels and movement accounting when conditional grants are being receipted, recognised, rolled over, and unspent grants are repaid. The accounting for grants should be done in accordance with GRAP 23: Revenue from

exchange transactions (Taxes and Transfers). Refer to **Annexure A** of this Circular on the correct treatment of rollovers and repayment of unspent grants in *mSCOA*.

## 5. The revenue budget

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the municipality's financial sustainability. The Consumer Price Index (CPI) is forecasted to be within the lower limit of the 3 to 6 per cent target band; therefore, municipalities are required **to justify all increases in excess of the projected inflation target for 2021/22 MTREF** in their budget narratives and pay careful attention to the differential incidence of tariff increases across all consumer groups. It is noted that the tariff increases by Eskom and Water Boards are above inflation and should be considered as such while determining cost-reflective tariffs. In addition, municipalities should include a detail of their revenue growth assumptions for the different service charges in the budget narrative.

Local government also confronts tough fiscal choices in the face of financial and institutional problems that result in service-delivery breakdowns and unpaid bills. Municipalities can offset these trends by improving its own revenue collection, working more efficiently and implementing cost-containment measures.

### 5.1 Eskom Bulk Tariff increases

The National Energy Regulator of South Africa (NERSA) is responsible for price determination of the bulk costs for electricity. In March, NERSA approved a municipal tariff increase of 6.9 per cent effective 1 July 2020 (1.2 per cent lower than the tariff increase in Multi-Year Price Determination (MYPD) 4 period due to differences in municipal and national financial years).

The equitable share formula uses the 9.9 per cent bulk tariff increase used when National Treasury calculated the baseline for this year in the 2020 MTEF period. Other (non-bulk) electricity costs are updated based on the National Treasury's inflation projections in the 2020 MTBPS. This is due to fiscal constraints and the fact that the court had not pronounced on the Eskom matter at the time that the budget was finalised.

The additional R10 billion that the courts have allowed Eskom to recover in the 2021/22 national financial year translates to a 15.6 per cent bulk increase over the national financial year. However, given that the increase only comes into effect in July for municipalities, NERSA typically allows a higher percentage increase so that Eskom can recover the additional allowable revenue from municipalities over 9 months before the national financial year ends. Therefore, the increase should be expected to be between 16 to 20 per cent. Municipalities can mitigate the negative impact of this increase by improving efficiencies on both the revenue collections and the spending side.

The outer two years of the 2021 MTEF use 8.9 per cent, which is an average annual tariff increase used for the NERSA's multi-year price determination period of 1 April 2019 to 31 March 2022. Moreover, the outer year is anticipated to be the first year of the MYPD 5 period, yet to be published.

## 6. Funding choices and management issues

Municipalities are under pressure to generate revenue as a result of the economic landscape, the COVID-19 pandemic, weak tariff setting and increases in key cost drivers to provide basic municipal services. Customers' ability to pay for services is declining, which means that less revenue will be collected.



In order to achieve financial sustainability, municipalities must demonstrate the political will to implement the changes required to improve their performance. Where municipalities consistently fail to deliver their mandates, the Constitution provides for provincial and/or national government to intervene.

### **6.1 Employee related costs**

The *Salary and Wage Collective Agreement* for the period 01 July 2018 to 31 June 2020 has come to an end and a new agreement is under consultation, which we hope will take into account the current fiscal constraints faced by government. Therefore, in the absence of any information in this regard from the South African Local Government Bargaining Council (SALGBC), municipalities are advised to take into account their financial sustainability when considering salary increases. It has been observed over the previous years that salary increases were above inflation. In addition, municipalities that could not afford such increases did not apply for exemption as provided by SALGBC.

Given the current economic condition exacerbated by the COVID-19 pandemic, municipalities are urged to consider projecting increases to wage that would reflect their affordability. Some municipalities are already not able to afford the current wage cost and would indeed have to apply no more than a zero per cent increase in the 2021/22 MTREF and exercise the option for exemption for any negotiated increase above the level of their affordability.

Therefore, should accounting officers fail to consider salary increases within the ambit of the municipality's available resources and financial position, such failure will constitute an act of financial misconduct as defined in section 171 of the MFMA read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

### **6.2 Remuneration of councillors**

Municipalities are advised to budget for the actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance. It is anticipated that this salary determination will also take into account the fiscal constraints. Municipalities should also consider guidance provided above on salary increases for municipal officials during this process.

### **6.3 Payment of danger allowance to the employees**

The work undertaken by the frontline staff in rendering services to communities must be appreciated whilst understanding the country's economic situation and the world resulting from the impact of COVID-19 pandemic. The SALGBC Circular No. 5 of 2020 provides advice to municipalities about the payment of danger allowance to employees working at the frontline to fight the COVID-19 pandemic.

The Circular provides that the council of the municipality must have an approved policy that should guide how the danger allowance should be paid, based on the affordability of the municipality. During this difficult financial situation posed by the COVID-19 pandemic, municipalities must consider the following:

1. Determine whether or not the municipality will afford the percentage increase in order to accommodate the Danger Allowance;
2. Assess the current status of the Employee Related Costs that form part of the municipality's budget in order to ascertain whether or not the inclusion of such allowance will not place the municipality's financial position in jeopardy in terms of the total Employee Related Costs as a percentage of the total expenditure;
3. Determine the credible funding source for the payment of Danger Allowance;

4. In this case the municipality must subject that change to “public participation processes” when dealing with the 2021/2022 MTREF based on the funding source; and
5. The municipality must also have a policy that operationalise the implementation of this kind of an allowance, only based on the determination/ assessment as per the aforementioned points.

#### **6.4 Mayor’s discretionary funds and similar discretionary budget allocations**

It has been observed that many municipal budgets contain sub-votes or allocations to “Mayoral Discretionary Funds”, “Special Projects”, “Special Events” or similar discretionary type funds. Municipalities must refer to section 12 of the MFMA in relation to setting up a relief, charitable, trust or other funds.

National Treasury regards these types of allocations as a bad practice because:

- It is not clear how they are aligned to the constitutional requirement that municipalities structure their budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community (see section 153(a) of the Constitution);
- They do not provide for the appropriation of funds for the purposes of a department or functional area of the municipality (see the definition of ‘vote’ in section 1 of the MFMA);
- They undermine the budget consultation processes since the intended use of the funds is not transparently reflected in the tabled budget; and
- There is a risk that they may be abused for personal gain or to improperly benefit another person or organisation.

Therefore, National Treasury discourages allocations of this nature. Good budget practice requires that a municipal budget should transparently indicate the purposes and areas where municipal funds (i.e. public funds) are to be allocated. These kinds of discretionary funds immediately raise public suspicions of impropriety and corruption. In terms of section 52(a) of the MFMA the Mayor “must provide general political guidance over the fiscal and financial affairs of the municipality”. The Mayor, therefore, provides direct input into the budget. If this is the case, why does the Mayor require a ‘discretionary / personal slush fund’?

Section 17(3)(b) of the MFMA requires that when an annual budget is tabled it must be accompanied by “measurable performance objectives ... for each vote in the budget”. What measurable performance objectives can be set in relation to these funds given that their use is at the discretion of the Mayor? This means the transparent and effective use of these funds cannot be monitored and assessed by the council and the public.

National Treasury notes that section 17(3)(j) of the MFMA requires that when an annual budget is tabled it must be accompanied by “particulars of any proposed allocations or grants by the municipality to ... (iv) any organisations or bodies referred to in section 67(1)”. The aim of this provision is to ensure that all proposed allocations or grants are presented transparently in the budget documentation that is tabled for public consultation and council approval, as well as for budget management and monitoring purposes. *Any allocations or grants made to organisations or bodies that are not reflected in a municipality’s budget or adjustments budget must be regarded as unauthorised expenditure because they are “(f) a grant by the municipality otherwise than in accordance with this Act”* (see definition of unauthorised expenditure in section 1 of the MFMA).

National Treasury further notes that section 67 of the MFMA only allows funds to be transferred to ‘an organisation or body’ and not to an individual. Any allocations or grants to individuals, *other than in terms of the municipality’s indigent policy or bursary scheme, must be regarded as*

*irregular expenditure because they are expenditures not in accordance with a requirement of the MFMA.*

National Treasury and provincial treasuries will exercise close oversight of all discretionary type allocations in municipal budgets. If there are any concerns about the use of these funds, section 74 of the MFMA will be used to request information in this regard and analyse it for consistency with the MFMA legal framework.

## 7. Conditional Grant Transfers to Municipalities

The annual Division of Revenue Act requires that municipalities must request for a rollover approval against any unspent conditional grants that were allocated through the Act, therefore this section provides guidance to municipalities with regard to the preparation for the 2020/21 unspent conditional grant and rollover process and should be referenced against previous annual budget circulars.

### 7.1 Criteria for the rollover of conditional grant funds

In terms of Section 22 of the Division of Revenue Act, 2020 (Act No.4 of 2020) (DoRA) in conjunction with the Division of Revenue Amendment Act, 2020 (Act No. 10 of 2020) (DoRAA) and the Division of Revenue Second Amendment Act, 2020 (Act No. 20 of 2020), the Act requires that any conditional allocation or a portion thereof that is not spent at the end of the 2020/21 financial year reverts to the National Revenue Fund, unless the rollover of the allocation is approved in terms of subsection (2). Furthermore, the receiving officer, provincial treasury and national transferring officer is required to prove to National Treasury that the unspent allocation is committed to identifiable projects, in which case the funds may be rolled over.

When requesting a rollover in terms of section 22(2) of the 2020 DoRA, municipalities must include the following information with their submission to National Treasury:

1. A formal letter, signed by the accounting officer addressed to the National Treasury requesting the rollover of unspent conditional grants in terms of section 22(2) of the 2020 DoRA;
2. A list of all the projects that are linked to the unspent conditional grants and a breakdown of how much was allocated and spent per project;
3. The following evidence indicating that work on each of the projects has commenced, as applicable to the specific rollover(s):
  - a) Proof that a contractor or service provider was appointed for delivery of the project before 31 March; or
  - b) Proof of project tender and tender submissions published and closed before 31 March with the appointment of contractor or service provider for delivery of service before 30 June in cases where additional funding was allocated during the course of the final year of the project;
  - c) Incorporation of the Appropriation Statement;
  - d) Evidence that all projects linked to an allocation will be fully utilised by 30 June 2022 (attach cash flow projection for the applicable grant).
4. A progress report (also in percentages) on the status of each project's implementation that includes an attached **legible implementation plan**);
5. The value of the committed project funding and the conditional allocation from the funding source;
6. Reasons why the grants were not fully spent during the year of original allocation per the DoRA;

7. Rollover of rollovers will not be considered therefore municipalities must not include previous year's unspent conditional grants as rollover request;
8. An indication of the time period within which the funds are to be spent if the rollover is approved; and
9. Proof that the Municipal Manager and Chief Financial Officer are permanently appointed.

No rollover requests will be considered for municipalities with vacant or acting Chief Financial Officers and Municipal Managers for a period exceeding 6 months from the date of vacancy; this also includes acting appointments as a result of suspensions of either MM or CFO that are more than 12 months.

**If any of the above information is not provided or the application is received by National Treasury (Intergovernmental Relations Division) after 31 August 2021, the application will be declined.**

In addition, National Treasury will also consider the following information when assessing rollover applications; and reserves the right to decline an application should there be non-performance by the municipality in any of these areas:

1. Compliance with the in-year reporting requirements in terms of sections 71 and 72 of the MFMA and section 12 of the 2020 DoRA, **including the municipal manager and chief financial officer signing-off on the information** sent to National Treasury;
2. Submission of the pre-audited Annual Financial Statements to National Treasury by 31 August 2021;
3. Accurate disclosure of grant performance in the 2020/21 pre-audited Annual Financial Statements, (i.e. correct disclosure of grant receipts and spending in the notes to the AFS);
4. Despite the fact local government is required to comply to different norms and standards prescribed by different legislations, municipalities are expected to fully comply with the provisions of DoRA that relates to rollover processes and disclose conditional grant performance in the 2020/21 pre-audited Annual Financial Statements in order to verify grant expenditure; and
5. Cash available in the bank (net position including short term investments) as at 30 June 2021 is equivalent to the unspent amount at the end of the financial year. If the amount that is requested for rollover **is not entirely cash-backed**, such a rollover will not be approved. National Treasury will also not approve portions of rollover requests.

It should be noted that under no circumstances will the National Treasury consider requests to rollover:

1. The entire 2020/21 allocation to the municipality, in cases whereby the rollover request is more than 50 per cent of the total allocation, National Treasury will approve the rollover amount up to 50 per cent of the 2020/21 allocation;
2. Rollover request of the same grant for the third consecutive time;
3. Funding for projects constituted through Regulation 32 of the Municipal Supply Chain Management Regulations (Gazette No.27636). Projects linked to additional funding and disasters are exempted; and
4. A portion of an allocation where the proof of commitment for the rollover application is linked to invoices that were issued before or on 31 May 2021.

## **7.2 Rollover request against the Covid-19 allocated through the Equitable Share**

The Division of Revenue Amendment Act, 2020 (Act No 10 of 2020) made available to Local government an amount of R11 billion following the President's speech on 20 April 2020. The President pronounced that R20 billion would be made available to municipalities in order to provide emergency water supply, increase sanitation of public transport facilities, and provide

food and shelter for the homeless. The R20 billion consisted of an additional allocation of R11 billion, which was transferred through the Equitable Share, and the R9 billion was funded from the repurposed spending within conditional grants allocated to municipalities. This increased the 2020/21 municipal Equitable Share allocation from R74.7 billion to R85.7 billion.

The R11 billion added to the local government Equitable Share allowed municipalities to maintain existing services despite a temporary decline in revenue collections and also cover some additional expenses incurred in response to the pandemic, including the provision of temporary shelter for homeless people during the lockdown.

Although the R11 billion was allocated through an unconditional grant (Equitable Share), these are committed funds in response to the Covid-19 pandemic. Consequently, the municipalities are required to request a rollover from National Treasury of any unspent committed Covid-19 allocation to be rolled over into the 2021/22 financial year.

Municipalities are therefore required to provide the following information to National Treasury in order to prove that the unspent funds are committed and also provide approval to allow the unspent funds to be spent in the 2021/22 financial year.

1. Provide the contracts that are linked to the response of the Covid-19 pandemic in line with the provisions made in the 2020 DoRAA;
2. Reasons why the funds were not fully spent during the year of original allocation per the DoRAA;
3. Accurate disclosure of Covid-19 allocation expenditure in the 2020/21 pre-audited Annual Financial Statements, (i.e. correct disclosure of grant receipts and spending in the notes to the AFS); and
4. Any expenditure incurred against the unspent Covid-19 funds that was not approved for the rollover will be regarded as unauthorized expenditure.

### **7.3 Unspent conditional grant funds for 2020/21**

The process to ensure the return of unspent conditional grants for the 2020/21 financial year will be managed in accordance with section 22 of the DoRA. In addition to the previous MFMA Circulars, the following practical arrangements will apply:

- Step 1: Municipalities must submit their June 2021 conditional grant expenditure reports according to section 71 of the MFMA reflecting all accrued expenditure on conditional grants and further ensure that expenditure reported to both National Treasury and national transferring officers reconcile;
- Step 2: When preparing the Annual Financial Statements, a municipality must determine the portion of each national conditional grant allocation that remained unspent as at 30 June 2021. These amounts MUST exclude all interest earned on conditional grants, retentions and VAT related to conditional grant spending that has been reclaimed from SARS, which must be disclosed separately; and
- Step 3: If the receiving officer wants to motivate in terms of section 22(2) of the 2020 DoRA that the unspent funds are committed to identifiable projects, the rollover application pack must be submitted to National Treasury by no later than 31 August 2021.

***National Treasury will not consider any rollover requests that are incomplete or received after this deadline.***

- Step 4: National Treasury will confirm in writing whether or not the municipality may retain any of the unspent funds as a rollover based on criteria outlined above by 22 October 2021;

- Step 5: National Treasury will communicate the unspent conditional grants amount by 08 November 2021. A municipality must return the remaining unspent conditional grant funds that are not subject to a specific repayment arrangement to the National Revenue Fund by 19 November 2021; and
- Step 6: Any unspent conditional grant funds that should have, but has not been repaid to the National Revenue Fund by 19 November 2021, and for which a municipality has not requested a repayment arrangement, will be offset against the municipality's 07 December 2021 equitable share allocation.

*All other issues pertaining to Appropriation Statement and reporting on approved rollovers are addressed in the Annexure to MFMA Circular No. 86.*

#### **7.4 Importance of section 17 of the Division of Revenue Act**

The purpose of this section is to provide further clarity on section 17 of DoRA in relation to the transfer of funds to the organ of state in order to implement projects on behalf of the municipalities.

Section 17 (3) of DoRA states that a receiving officer may not allocate any portion of a schedule 5 allocation to any other organ of state for the performance of a function, unless the receiving officer and the organ of the state agree on the obligation of both parties and a payment schedule, the receiving officer has notified the transferring officer, the relevant provincial treasury and National Treasury of the agreed payment schedule and:

- a. The allocation
  - i) Is approved in the budget for the receiving provincial department or municipality; or
  - ii) If not already approved;
    - aa) the receiving officer notifies the National Treasury that the purpose of the allocation is not to artificially inflate the expenditure estimates of the relevant municipality and indicates the reasons for the allocation; and
    - bb) the National Treasury approves the allocation; or
- b. The allocation is for the payment for goods or services procured in accordance with the procurement prescripts applicable to the relevant province or municipality and, if it is an advance payment, paragraph (a) (ii) applies with the necessary changes.

Further, section 17 (4) states that the receiving officer must submit a copy of the agreement envisaged in subsection (3) to the transferring officer and the National Treasury before payment is made.

This section requires municipalities to comply with section 17 (3) before any DoRA allocated funds are allocated to any organ of state, and the municipality should first seek approval from National Treasury.

Note that National Treasury considers the following when assessing the request from the municipality for approval:

1. If the municipality is benefitting and utilising from the five per cent from capital grants that may be utilised for Project Management Unit (PMU). In terms of the capital grant framework (i.e. MIG and IUDG and three per cent for the USDG), municipalities are allowed to utilise a certain per cent of the grant for PMU or capacity support in order to implement capital projects. Therefore, if municipalities are benefitting from this initiative, the PMU should be capacitated enough to implement capital project;
2. Municipalities that are benefitting from the added technical support from Municipal Infrastructure Support Agent (MISA) will not be granted approval because MISA would assist with providing support and develop technical capacity towards sustained

- accelerated municipal and service delivery. This implies that the municipality would be capacitated and be in a better position to implement capital project; and
3. If the request does not comply with the grant conditions, framework and if the transfer artificially inflates the expenditure estimates.

The following information must be submitted to National Treasury before approval is granted to municipalities to transfer funds to organs of the state:

1. In consultation with the relevant transferring officer municipalities must submit their request to National Treasury for approval;
2. Provide the time frames regarding the duration of this arrangement between the municipality and the organ of the state;
3. Provide the Service Level Agreement between the municipality and the organ of the state in consultation with the relevant transferring officer;
4. Provide the agreed payment schedule reflecting the disbursement of the funds;
5. Must provide the reasons why the municipality has taken such a decision;
7. If amongst the reasons for the request is related to capacity challenges, the municipality must therefore prove beyond reasonable doubt that there are capacity challenges and the reasons thereof; and
8. Upon approval, the municipality must submit the approved budget that includes the allocation.

Note that once the allocation has been approved, the payment for goods or services must be procured in accordance with or in compliance with the procurement prescripts applicable to the relevant municipality. If there is an agreement for an advancement, subsection (a) (ii) will apply in order to determine if the payment does not artificially inflate the expenditure estimates. Further, before funds are transferred, the national transferring officer and National Treasury must agree on the payment schedule.

Therefore, if any expenditure incurred which emanates from such an arrangement while there was non-compliance with section 17, grant conditions and framework, such expenditure will not be recognised by both National Treasury and relevant transferring officer and will be classified as unauthorised expenditure.

## 8. The Municipal Budget and Reporting Regulations

### 8.1 Service Level Standards

Municipalities are reminded to update the service level standards which must form part of their 2021/22 MTREF tabled budget documentation. A broad framework on the minimum service standards was issued with MFMA Circular No. 75. Therefore, the outline must be used as a guideline and be amended accordingly to align to the municipality's specific circumstances.

### 8.2 Assistance with the compilation of budgets

If municipalities require advice with the compilation of their respective budgets, specifically the budget documents or Schedule A1, they should direct their enquiries to their respective provincial treasuries or to the following National Treasury officials:

| Province     | Responsible NT officials | Tel. No.     | Email  |
|--------------|--------------------------|--------------|--|
| Eastern Cape | Matjatji Mashoeshoe      | 012-315 5553 | <a href="mailto:Matjatji.Mashoeshoe@treasury.gov.za">Matjatji.Mashoeshoe@treasury.gov.za</a> |
| Buffalo City | Mandla Gilimani          | 012-315 5807 | <a href="mailto:Mandla.Gilimani@treasury.gov.za">Mandla.Gilimani@treasury.gov.za</a>         |
| Free State   | Cethekile Moshane        | 012-315 5079 | <a href="mailto:Cethekile.moshane@treasury.gov.za">Cethekile.moshane@treasury.gov.za</a>     |

|                                     |                     |              |  |
|-------------------------------------|---------------------|--------------|--|
| Gauteng                             | Kgomotso Baloyi     | 012-315 5866 | <a href="mailto:Kgomotso.Baloyi@treasury.gov.za">Kgomotso.Baloyi@treasury.gov.za</a>         |
| Johannesburg and Tshwane            | Kevin Bell          | 012-315 5725 | <a href="mailto:Kevin.Bell@treasury.gov.za">Kevin.Bell@treasury.gov.za</a>                   |
|                                     | Willem Voigt        | 012-315 5830 | <a href="mailto:WillemCordes.Voigt@treasury.gov.za">WillemCordes.Voigt@treasury.gov.za</a>   |
|                                     |                     |              | <a href="mailto:Sifiso.Mabaso@treasury.gov.za">Sifiso.Mabaso@treasury.gov.za</a>             |
| KwaZulu-Natal                       | Kgomotso Baloyi     | 012-315 5866 | <a href="mailto:Kgomotso.Baloyi@treasury.gov.za">Kgomotso.Baloyi@treasury.gov.za</a>         |
| eThekweni                           | Mpati Rakgwale      |              | <a href="mailto:Mpati.Rakgwale@treasury.gov.za">Mpati.Rakgwale@treasury.gov.za</a>           |
|                                     | Una Rautenbach      | 012-315 5700 | <a href="mailto:Una.Rautenbach@treasury.gov.za">Una.Rautenbach@treasury.gov.za</a>           |
|                                     | Abigail Maila       |              | <a href="mailto:Abigail.Maila@treasury.gov.za">Abigail.Maila@treasury.gov.za</a>             |
| Limpopo                             | Willem Voigt        | 012-315 5830 | <a href="mailto:WillemCordes.Voigt@treasury.gov.za">WillemCordes.Voigt@treasury.gov.za</a>   |
|                                     | Sifiso Mabaso       | 012-315 5952 | <a href="mailto:Sifiso.Mabaso@treasury.gov.za">Sifiso.Mabaso@treasury.gov.za</a>             |
| Mpumalanga                          | Mandla Gilimani     | 012-315 5807 | <a href="mailto:Mandla.Gilimani@treasury.gov.za">Mandla.Gilimani@treasury.gov.za</a>         |
| Northern Cape                       | Mandla Gilimani     | 012-315 5807 | <a href="mailto:Mandla.Gilimani@treasury.gov.za">Mandla.Gilimani@treasury.gov.za</a>         |
|                                     | Phumelele Gulukunqu | 012 315 5539 | <a href="mailto:Phumelele.Gulukunqu@treasury.gov.za">Phumelele.Gulukunqu@treasury.gov.za</a> |
| North West                          | Willem Voigt        | 012-315 5830 | <a href="mailto:WillemCordes.Voigt@treasury.gov.za">WillemCordes.Voigt@treasury.gov.za</a>   |
|                                     | Makgabo Mabotja     | 012-315 5156 | <a href="mailto:Makgabo.Mabotja@treasury.gov.za">Makgabo.Mabotja@treasury.gov.za</a>         |
| Cape Town                           | Kgomotso Baloyi     | 012-315 5866 | <a href="mailto:Kgomotso.Baloyi@treasury.gov.za">Kgomotso.Baloyi@treasury.gov.za</a>         |
| George                              | Willem Voigt and    | 012-315 5830 | <a href="mailto:WillemCordes.Voigt@treasury.gov.za">WillemCordes.Voigt@treasury.gov.za</a>   |
|                                     | Mandla Gilimani     | 012-315 5807 | <a href="mailto:Mandla.Gilimani@treasury.gov.za">Mandla.Gilimani@treasury.gov.za</a>         |
| Technical issues with Excel formats | Kgomotoso Baloyi    | 012-315 5866 | <a href="mailto:Kgomotso.Baloyi@treasury.gov.za">Kgomotso.Baloyi@treasury.gov.za</a>         |

## 9. Budget process and submissions for the 2021/22 MTREF

### 9.1 Submitting budget documentation and A1 schedules for 2021/22 MTREF

To facilitate oversight of compliance with the MBRR, accounting officers are reminded that:

- Section 22(b)(i) of the MFMA requires that **immediately** after an annual budget is tabled in a municipal council, it must be submitted to the National Treasury and the relevant provincial treasury in electronic formats. If the annual budget is tabled to council on **31 March 2021**, the final date of submission of the electronic budget documents and corresponding *m*SCOA data strings is **Thursday, 01 April 2021**.

Section 24(3) of the MFMA, read together with regulation 20(1) of the MBRR, requires that municipalities must submit the approved annual budget to both National Treasury and the relevant provincial treasury **within ten working days** after the council has approved the annual budget. E.g. if the council approves the annual budget on **31 May 2021**, given the new timeframe for the evaluation of the municipal budgets, the adopted budget data strings and documentation must be submitted by the latest **Monday, 14 June 2020**.

**Municipalities are no longer expected to submit hard copies of all required documents including budget-related, Integrated Development Plan, Service Delivery Budget and Implementation Plan, Annual Financial Statements and Annual Reports to National Treasury via post or courier services. Electronic copies must be submitted in pdf format to the LG Upload portal or [lgdocuments@treasury.gov.za](mailto:lgdocuments@treasury.gov.za).**

### 9.2 Consolidated budgets and reports

Municipalities with entities are reminded that they must prepare and submit MTREF budgets, section 71 reports, annual financial statements and annual reports for both the parent municipalities and consolidated documents that incorporates the entity information in terms of the MBRR.



### 9.3 Submission using LG Upload Portal

In MFMA Budget Circular No 107, it was indicated that budget-related documents and schedules must be uploaded by approved registered users using the LG Upload Portal at: <https://lguploadportal.treasury.gov.za/> and that National Treasury was planning to retire [lgdocuments@treasury.gov.za](mailto:lgdocuments@treasury.gov.za) from 01 July 2021 to ensure that there is a single collection point of municipal financial data. However, based on workflow licensing challenges on the LG Upload Portal, data string submissions will shortly be shifted to the Open Portal GoMuni while documents must still be submitted using [lgdocuments@treasury.gov.za](mailto:lgdocuments@treasury.gov.za). The document submissions will also be shifted to GoMuni as soon as possible.

All municipalities and their entities had to prepare their MTREF budget directly on the mSCOA financial systems from 01 July 2017. Therefore, all MBRR schedule submissions must be submitted in **PDF format only**.

### 9.4 Publication of budgets on municipal websites

In terms of section 75 of the MFMA, all municipalities are required to publish their tabled budgets, adopted budgets, annual reports (containing audited annual financial statements) and other relevant information on the municipality's website. This will aid in promoting public accountability and good governance.

All relevant documents mentioned in this circular are available on the National Treasury website, <http://mfma.treasury.gov.za/Pages/Default.aspx>. Municipalities are encouraged to visit it regularly as documents are regularly added/ updated on the website.

## Contact



national treasury

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

**Post** Private Bag X115, Pretoria 0001

**Phone** 012 315 5009

**Fax** 012 395 6553

**Website** <http://www.treasury.gov.za/default.aspx>

**JH Hattingh**  
**Chief Director: Local Government Budget Analysis**  
08 March 2021

## Annexure A: Treatment of Rollovers and repayment of unspent grants in mSCOA

### *Cash receipting of a conditional grant*

The receiving of grants must be accounted for against (Dt) Bank and (Cr) Item Liabilities: Unspent grants: Capital: Monetary: Municipal Infrastructure Grant: Receipts as shown below:

|  |
|--|
| - Municipal Infrastructure Grant(IL-001-007-002-001-002-005-002) |
| Opening Balance(IL-001-007-002-001-002-005-002-001)              |
| Receipts(IL-001-007-002-001-002-005-002-002)                     |

### *Recognising the revenue when the grant is spent*

When the grant is spent in accordance with the conditions of the grant, a transaction must be passed against the (Dt) Item Liabilities: Transferred to Revenue/ Capital Expenditure and (Cr) Item Revenue: Non-Exchange Transactions: Transfers and subsidies: Capital: Monetary allocations: National Government: Municipal Infrastructure Grant as shown below:

#### Debit Item Liability: posting level

|  |
|--|
| - Municipal Infrastructure Grant(IL-001-007-002-001-002-005-002)               |
| Opening Balance(IL-001-007-002-001-002-005-002-001)                            |
| Receipts(IL-001-007-002-001-002-005-002-002)                                   |
| Transferred to Revenue/Capital Expenditure(IL-001-007-002-001-002-005-002-003) |

#### Credit revenue recognised: posting level

|   |
|---|
| - Transfers and Subsidies(IR-003-005)   |
| - Capital(IR-003-005-001)   |
| + Allocations In-kind(IR-003-005-001-001)                                       |
| - Monetary Allocations(IR-003-005-001-002)                                      |
| + Departmental Agencies and Accounts(IR-003-005-001-002-001)                    |
| + District Municipalities(IR-003-005-001-002-002)                               |
| + Foreign Government and International Organisations(IR-003-005-001-002-003)    |
| + Households(IR-003-005-001-002-004)  |
| - National Government(IR-003-005-001-002-005)                                   |
| Integrated National Electrification Programme Grant(IR-003-005-001-002-005-001) |
| Municipal Infrastructure Grant(IR-003-005-001-002-005-002)                      |

### Rollovers

In the event that the full grant was not spent at the end of the financial year, the municipality must apply for a rollover as per the process stipulated in the Division of Revenue Act (DoRA). Until such approval has been granted by the National Treasury, a municipality may not continue to incur expenditure against the unspent conditional grant allocation. This does not mean that the municipality should stop or cancel ongoing projects, but Council approval must be obtained to fund the spending from own funding sources until rollover approval is granted by the National Treasury. Once the rollover has been approved by the National Treasury, the amount of the rollover must be ratified through an adjustments budget. The *mSCOA* chart makes provision for all the required transactions in this regard.

#### *Roll over not approved/ Offset against Equitable share*

In the event that the rollover is not approved by the National Treasury, the unspent grant funding must be paid back to the National Revenue Fund or alternatively be offset against the Equitable Share and the Liability must be reduced by:

- 1) Debiting Unspent Grant (Repayment) to reduce the liability that was still outstanding; and
- 2) Crediting Item Revenue Equitable Share to adjust the revenue in line with DoRA.

This is further illustrated below:

- 1) Debit Liability: posting level

|  |  |
|--|--|
| Municipal Infrastructure Grant(IL-001-007-002-001-002-005-002)                 |  |
| Opening Balance(IL-001-007-002-001-002-005-002-001)                            |  |
| Receipts(IL-001-007-002-001-002-005-002-002)                                   |  |
| Transferred to Revenue/Capital Expenditure(IL-001-007-002-001-002-005-002-003) |  |
| <b>(Retired) Closing Balance(IL-001-007-002-001-002-005-002-004)</b>           |  |
| <b>Re-payment of Unspent Grant(IL-001-007-002-001-002-005-002-005)</b>         |  |

- 2) Credit Revenue: posting level

|   |  |
|---|--|
| National Revenue Fund(IR-003-005-002-002-006)                 |  |
| Fuel Levy (RSC Replacement Grant)(IR-003-005-002-002-006-001) |  |
| <b>Equitable Share(IR-003-005-002-002-006-002)</b>            |  |

#### *Unauthorised, Irregular, Fruitless and Wasteful (UIFW) expenditure*

If the municipality continues to spend against the conditional grant allocation, but rollover approval has not been granted by the National Treasury, this expenditure will be viewed as unauthorised expenditure.