CHRIS HANI
DISTRICT MUNICIPALITY
SUSTAINING GROWTH THROUGH OUR PEOPLE

EXTRACT OUT OF MINUTES OF AN ORDINARY COUNCIL MEETING HELD ON 30 MARCH 2022.

C1144 . REPORT ON THE CHRIS HANI DISTRICT MUNICIPALITY DRAFT IDP REVIEW & BUDGET FOR THE 2022/2023 FINANCIAL YEAR AND MTREF

Purpose:

- To present 2022-2027 CHDM Draft IDP to CHDM Council for Noting.
- To present 2022-2027 CHDM Draft IDP to CHDM Council with Chapter 7 Performance Management Framework (PMS) as reviewed for Noting
- To present 2022-2027 CHDM Draft IDP to CHDM Council with Chapter 4 Spatial Development Framework (SDF) as reviewed for Noting
- To present 2022-2027 CHDM Draft IDP to CHDM Council to adopt as Draft 2022-2027 IDP.
- To table the 2022/23 Medium Term Revenue and Expenditure Framework Budget for consideration.

Authority:

CHDM Council

Legislative Framework:

- The Local Government: Municipal Systems Act 32 of 2000 as amended.
- The Local Government: Municipal Structures Act 117 of 1998 as amended.
- The Municipal Planning and Performance Management Regulations (2001 & 2006)
- The Municipal Finance Management Act 56 of (2003). and its Municipal Budget Reporting Regulations, MFMA Circulars 112 and 115; and
- The Disaster Management Act no.57 of 2002 and Regulations.

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Background:

By 25th August 2021, Chris Hani District Municipality adopted the IDP Framework and IDP/Budget/PMS Process Plan for the development of 2022-2027 IDP which was to be the 5th Generation of the IDP in our country RSA and for a period of 2022-2027 Integrated Development Plan (IDP) for the Municipality. This 2022-2027 IDP was developed in accordance with the requirements set out in the Municipal Systems Act (32 of 2000) and the Municipal Planning and Performance Management Regulations (2001).

The Municipal Systems Act 32 of 2000 reflects that the IDP must be developed and reviewed annually together with the Municipality's Performance Measurement System. This means that the development and later reviewal of the IDP will go hand-in-hand with the implementation of a Performance Management System and the Budget Cycle. Chapter 7 of this 2022-2027 IDP refers to Performance Management Framework which was taken from the Reviewed PMS Framework as to be adopted by Council together with this IDP.

The IDP is developed and later reviewed annually in order to:

- Ensure its relevance as the Municipality's Strategic Plan.
- Inform other components of the Municipal business processes including institutional and financial planning/ budgeting.
- Inform the cyclical inter-governmental planning and budgeting cycle.

Exposition of Facts:

For the 2022-2027 IDP to remain relevant, the Municipality must assess its past performance and achievement of its targets [strategic objectives] and in the light of this assessment, the IDP will be reviewed in between these financial years to 2027 to reflect the impact of its success as well as corrective measures to address challenges. The 2022-2027 IDP will also be reviewed annually in the light of changing internal and external circumstances that impact on the priority issues, objectives, strategies, projects and programmes of IDP.

As the IDP is developed for a period of 5 years and reviewed annually the Municipal Finance Management Act also regulates processes of drafting a budget for that particular financial year. The MFMA referred to above indicates, ***"The mayor of a municipality must –***

[21(a)] co-ordinate the process for preparing the annual budget......,

[21(b)] at least 10 months before the start of the budget year, table in the municipal council a time schedule outlining key deadlines...."

Section 16 of the Local Government Municipal Finance Management Act (MFMA) prescribes that the council of a municipality must for each financial year approve an annual budget for the municipality before the start of the financial year.

Section 68 of MFMA assigns the Accounting Officer the responsibility of assisting the Mayor in performing the budgetary functions assigned to the latter in terms of Chapters 4 and 7.

Chris Hani District Municipality as earlier mentioned prepared an IDP/Budget/PMS process plan which was adopted by Council by 25th August 2021, and this Process Plan action programme for the 2022/2023 to 2024/2025 Medium Term Revenue and Expenditure Framework (MTREF).

The process culminates into the budget for the financial year 2022-2023 which is addressing the matters as lifted and reflected on our IDP of 2022-2027 financial years. Chapter 6 of this 2022-2027 CHDM IDP covers a detailed financial plan for the municipality unto which the programmes and challenges will be addressed.

Exposition of facts

1. Budget assumptions

Description	2021/22	2022/23	2023/24	2024/25
National Treasury Headline Inflation	4.5%	4.8%	4.4%	4.5%
Salaries	6.5%	7.4% (4.9%+2.5%)	4.4%	4.4%
Free Basic Services – Water	6kl	6kl	6kl	6kl
Free Basic Services –	4kl	4kl	4kl	4kl

Sanitation				
LG Equitable Allocation	600 621 000	654 460 000	694 535 000	736 185 000
Water Tariff	4%	4.5%	4.5%	4.5%
Sanitation Tariff	4%	4.5%	4.5%	4.5%
Sundry Revenue	4%	4.5%	4.5%	4.5%
Other Expenditure		4%	4%	4%

2. The following budget principles and guidelines were considered for the compilation of the 2022/2023 to 2025/2026 MTREF –
   - National Treasury's MFMA Circulars were used as guidelines in compilation of the MTREF.
   - Headline inflation predictions.
   - National outcomes and priorities.
   - The priorities and targets in relation to the key strategic focus areas as determined in the IDP;
   - The 2021/2022 Adjustments Budget priorities, targets and base line allocations were taken as guideline for future revenue and expenditure stream projections.
   - Tariff rates revenue stream increases should be affordable, and the NT guideline is that it generally should not exceed inflation as measured by the CPI, although many input costs in rendering services are beyond the control of the municipality and posing a challenge on continuous repair and maintenance. In addition, tariffs must be cost reflective, and should take into account the need to address infrastructure projects.
   - The consideration made in the gazetted annual Division of Revenue Act for capital projects from funding of both National and Provincial.

3. The main challenges experienced during the compilation of the 2022/2023 to 2025/2026 MTREF can be summarised as follows –
   - Reprioritisation of capital projects and operating expenditure within the financial affordability limits of the budget, taking the cash and financial viability position into account.
   - The increased costs associated with bulk water and electricity, placing upward pressure on tariff increases to consumers. Continued high tariff increases may soon render municipal services financially unaffordable.

- Maintaining revenue collection rates at the targeted levels, despite the realities on the metering.
- Depleted Capital Replacement Reserve that are being resuscitated to be enhanced gradually, impacting on the Municipality's ability to fund capital expenditure from internal sources.

- The on-going difficulties in the national and local economy pre and post COVID-19 financial constraints.
- Aging and poorly maintained water and sanitation infrastructure; and

4. The process followed during the compilation of the 2022/2023 to 2025/2026 MTREF can be summarised as follows –

The 2022/23 budget process commenced with Departmental Strategic sessions held during the month of February 2022, led by the Head of Departments or Directors. The purpose of these sessions was to review the envisaged strategies of the Municipality towards improved serviced delivery. An Institutional Strategic Planning session was also held from the 28 February to 01 March 2022 where it was a joint session with the Political Public Office Bearers, to deliberate on an institutional thrust in their political term of office. The IDP and Budget workshops with all Directorates were held from the 14 to 15 March 2022 to address the departmental budget requests.

The last consultation was held with the Budget Steering Committee on the 17 March 2022, thereafter the Budget and Treasury Office (BTO) to develop an MTREF budget for the consolidated budget for CHDM and Chris Hani Development Agency (CHDA) and thereafter submit an institutional MTREF Budget, for Mayoral and Council's considerations. After the consideration by Mayoral and Council Committees, the tabled budget and IDP will be taken through a public participation or roadshow, preferable in April / May 2022.

5. The High-level Overview 2022/23 MTREF Budget can be summarised as follows (Operating Revenue and Capital + Operating Expenditure and Capital) –

Table 1: Overall Operating Revenue and Expenditure 2022/23 MTREF Budget

DC13 Chris Hani - Summarised Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22		2022/23 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Total Revenue		977 396	1 079 436	1 157 963	1 200 196	1 388 888	1 480 652	1 659 178	1 643 184
Total Expenditure		1 180 441	1 222 305	1 294 972	1 141 083	1 212 554	1 353 674	1 518 274	1 488 952
Surplus/(Deficit)		(203 045)	(142 869)	(137 009)	59 113	176 334	126 978	140 904	154 232
Transfers and subsidies - capital		318 276	344 254	556 506	563 391	617 035	535 235	319 398	466 482
Surplus/(Deficit) for the year		115 231	201 384	419 498	622 504	793 369	662 213	460 302	620 714

Anticipated operating revenue for 2022/2023 is estimated at R1,480,651,646 or R91,764,082 (6.6%) more than the 2021/2022 approved adjustments budget revenue of R1,388,887,564.

The increase is as a result of the yearly tariff increase of 4.5% for water and sanitation sales and as well the inflationary increases for the other revenue items at 4%. The overall increase of the operating revenue is also as a result of increase of transfers and subsidies.

Table 2: Overall Total Grant Allocation per the DoRa - 2022/23 MTREF Budget

Type of Grants	2022/23	2023/24	2024/25
Equitable Share	654 460 000	694 535 000	736 185 000
Expanded Public Work Programme	3 630 000	-	-
Regional Bulk Infrastructure Grant	216 907 000	77 716 000	115 000 000
Financial Management Grant	1 000 000	1 000 000	1 000 000
Municipal Infrastructure Grant	330 451 000	346 034 000	362 613 000
Rural Road Asset Management	3 455 000	3 468 000	4 586 000
Water Services Infrastructure Grant	60 000 000	80 000 000	83 600 000
Municipal System Infrastructure	2 857 000	2 440 000	2 440 000

Grant(in-kind)			
Total	**1 272 760 000**	**1 205 193 000**	**1 305 424 000**

The total grants are estimated to be R1.2 billion for the 2022/23 financial year of which the largest grant allocation is LGES R654 million, followed by MIG R330 million, RBIG R216 million, WSIG R60 million, EPWP R3.6 million, RRAMS R3 million, MSIG R2.8 million and financial management R1 million.

The Operating Revenue Budget Overview 2022/23 MTREF Budget can be summarised as follows per Revenue Source–

Table 3: Overall Operating Revenue 2022/23 MTREF Budget (Table A4 Revenue only)

DC13 Chris Hani - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22		2022/23 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Revenue By Source									
Property rates	2	–	–	–	–	–	–	–	–
Service charges - electricity revenue	2	–	–	–	–	–	–	–	–
Service charges - water revenue	2	249 351	241 313	307 984	274 388	296 388	309 726	322 115	335 000
Service charges - sanitation revenue	2	56 116	59 193	62 660	67 784	73 206	76 500	79 560	82 743
Service charges - refuse revenue	2	–	–	–	–	–	–	–	–
Rental of facilities and equipment		–	–	–	–	–	–	–	–
Interest earned - external investments		35 664	20 714	7 527	39 351	39 351	40 925	42 562	44 691
Interest earned - outstanding debtors		38 687	57 781	62 769	51 285	51 285	53 593	55 737	57 966
Dividends received									
Fines, penalties and forfeits		–	–	–	90	90	94	98	101
Licences and permits		–	–	61	273	273	284	295	307
Agency services									
Transfers and subsidies		596 832	698 412	714 682	678 553	674 823	734 668	883 355	835 902
Other revenue	2	747	2 021	987	85 470	250 470	261 742	272 211	283 100
Gains		–	2	1 292	3 000	3 000	3 120	3 245	3 375
Total Revenue (excluding capital transfers and contributions)		**977 396**	**1 079 436**	**1 157 963**	**1 200 196**	**1 388 888**	**1 480 652**	**1 659 178**	**1 643 184**

The overall operating revenue for 2022/2023 is estimated at R1,480,651,646 or R91,764,082 (6.6%) more than the adjustments budget expenditure of R1,388,887,564 for 2021/2022.

The Chris Hani District Municipality depends largely on Local Government Equitable Share (LGES) as well as service charges. The service charges consist of the following:

- LGES R 654,4 million;
- Water charges R 309.7 million; and
- Sanitation charges R 76,5 million; -

Services charges relating to water and sanitation constitutes the second biggest component of the revenue basket of the Municipality totaling R 369.6 million for the 2021/22 financial year and increasing to R 386.2 million for 2022/23, the growth constitute 4.5% in line with the CPI as recommended the relevant MFMA Budget Circulars.

The **interest on debtors** were estimated to a similarly to the service charges with the increase of 4.5% and estimated to be R53.6 million. This is also in line with the CPI recommended increases by that were outlined in the MFMA Budget Circular 112 and 115 as issued in December 2021 and March 2022.

The **interest on investment** were estimated to increase by 4% in the 2022/23 financial year and estimated to be R40.9 million. This is informed by the strategy of recovering the old outstanding debt, rollout of the SMART Meters, debt incentive schemes rollout and the appointment of the Debt Collectors.

Transfers recognized – operating includes the local government equitable share and other operating grants from national and provincial government. This is allocation is informed by the DoRa gazette as stipulated in the above Table 2.

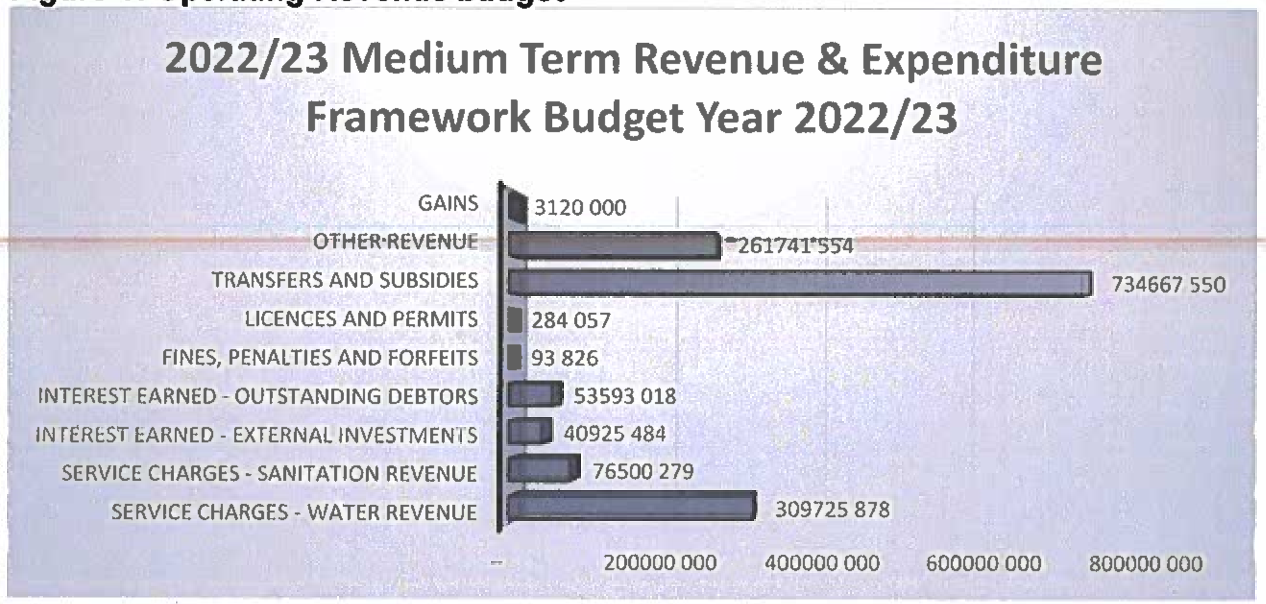
Other revenue is estimated to increase to be R261.7 million in 2022/23 financial year. This increase is informed by the VAT recoveries that the Municipality is receiving from the SARS assessment, tendering documentation, and other telephone recoveries.
The gains are estimated to be R3.1 million for the 2022/23 financial year, which is informed by the auction that will be conducted during the 2022/23 financial to dispose off the assets in line with the Council policies and other relevant regulations.

Operating surpluses is estimated to increase to be R126.9 million in 2022/23 financial year. This is due to the inflationary tariff increases and other revenue enhancement strategies such as rollout of SMART

Meters and appointment of Debt Collection Team.

The Operating Revenue Budget Overview 2022/23 MTREF Budget can be summarised as follows per Department –

Figure 1: Operating Revenue budget



6. The Operating Revenue Budget Overview 2022/23 MTREF Budget can be summarised as follows per Directorate –

DC13 Chris Hani - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)									
Vote Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22		2022/23 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Revenue by Vote	1								
Vote 01 - Council		–	–	–	–	–	–	–	–
Vote 02 - Municipal Manager		–	–	682	422	122	399	–	–
Vote 03 - Budget & Treasury		600 875	625 297	722 957	784 758	945 727	1 014 839	1 069 289	1 126 315
Vote 04 - Community Services		7 361	5 902	545	1 400	1 400	1 141	394	409
Vote 05 - Corporate Services		2 734	4 271	2 483	1 574	975	1 488	–	–
Vote 06 - Planning & Development		2 932	1 183	4 453	806	2 006	980	–	–
Vote 07 - Technical Services		661 091	770 335	983 350	974 627	1 055 692	997 039	908 893	982 941
Vote 08 - Roadworks		20 679	16 701	–	–	–	–	–	–
Total Revenue by Vote	2	1 295 672	1 423 690	1 714 469	1 763 587	2 005 923	2 015 887	1 978 576	2 109 666

7. The Operating Expenditure Budget Overview 2022/23 MTREF Budget can be summarised as follows per Line Items –

Table 5: Overall Operating Expenditure 2022/23 MTREF Budget (Table A4 Expenditure only)

DC13 Chris Hani - Table A4 Budgeted Financial Performance (revenue and expenditure)									
Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22		2022/23 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Expenditure By Type									
Employee related costs	2	342 167	342 074	379 973	362 920	372 920	415 535	433 819	453 341
Remuneration of councillors		11 665	12 226	12 918	12 226	12 226	12 715	13 274	13 872
Debt impairment	3	173 391	278 891	304 180	278 891	198 891	202 391	211 296	220 805
Depreciation & asset impairment	2	152 026	157 913	181 858	157 838	157 838	180 000	187 920	196 376
Finance charges		(30)	88	456	510	510	530	554	579
Inventory consumed	8	17 133	10 490	33 493	30 506	43 882	49 949	52 146	54 493
Contracted services		248 183	168 380	182 088	166 912	226 021	269 744	318 602	306 304
Transfers and subsidies		–	117 739	53 842	48 496	69 173	70 500	141 600	76 912
Other expenditure	4, 5	235 749	134 190	144 866	82 784	131 093	152 309	159 063	166 271
Losses		156	315	1 298	–	–	–	–	–
Total Expenditure		1 180 441	1 222 305	1 294 972	1 141 083	1 212 554	1 353 674	1 518 274	1 488 952
Surplus/(Deficit)		(203 045)	(142 869)	(137 009)	59 113	176 334	126 978	140 904	154 232

The overall operating expenditure for 2022/2023 is estimated at R1,353,673,769 or R141,119,746 (11.6%) more than the adjustments budget expenditure of R1,212,554,023 for 2021/2022. Employee related costs, contracted services, and other expenditures are the main cost drivers within the municipality and alternative operational efficiencies, or additional revenue sources will have to be identified to lessen the impact of wage and tariff increases in future years.

The general CPIX rates was used for the operating expenses increases for 2022/23 was 4%, throughout the MTREF Budget period however, some of the expenditures do not increase with the same percentage points due to the assessment of the year -to date expenditures where the Municipality is trying to avoid any potential unauthorized expenditures.

A Salary and Wage Collective Agreement to be implemented from effective 1 July 2022 proposed an increase of 4.9%. The Municipality has budgeted for the 4.9% plus the notch increase of 2.5% totalling to 7.4%. Based on the proposed salary increase resulted to an increase of salary to R415.5 million, which represents a 11.4% growth when compared to the previous financial year. The total salary costs are informed by the salary projections related to the current structure amounting to R360 million, the vacant funded positions of R43 million and actuarial valuation costs of R12 million, therefore, the actual salary increase is in line with the proposed SALBC increase of 7.4% including the notch increase when compared to the R372.9 million of 2021/22 financial year.

The salary increases for Councillors is estimated to increase by 4% to R12.7 million for 2022/23 financial year.

The **debt impairment** is estimated to increase by 1.8% to R202 million, this has reduced as compared to the prior years due to the debt incentive scheme roll out and Council approved the write off for indigents and take-on balances from the Local Municipalities. With the rollout of the Debt Incentive Scheme, the appointment of Debt Collection Team and the rollout of SMART Meters, this expenditure item will further reduce.

The **deprecation and impairment** cost are estimated to be R180 million representing 14% increase due to new assets and impairment assessment that is being conducted currently for the 2021/22 AFS process.

The **water inventory** is estimated to be R33.7 million and represent an increase of 11.4% for 2022/23 financial year. Although this increase is more than the CPI index, however, this has considered the YTD

expenditures for the 2021/22 financial year to avoid any potential unauthorized expenditures.
The **other materials** are estimated to be R16 million and represent an increase of 19.3% for 2022/23 financial year. Although this increase is more than the CPI index, however, this has considered the YTD expenditures related cleaning products of R2.5 million which was also considering the high demand of chemical usage for water treatment and purification. This is also a prudent measure to avoid any potential unauthorized expenditures.

The **contracted services** are estimated to be R269.7 million and represent an increase of 19.3% for 2022/23 financial year. Although this increase is more than the CPI index, however, this has considered the YTD as well as additional expenditures related to security services R78m, litigations R3.5m, repairs and maintenance of R66m, and other contracted services that includes both insource and outsourced. This increase is also influenced by the operational projects funded by MIG operational. This is also a prudent measure to avoid any potential unauthorized expenditures.

The **transfers and subsidies** are estimated to be R70.5 million and represent an increase of 2% for 2022/23 financial year. Although this increase is more than the CPI index, however, this has considered the YTD expenditures related to Rural sanitation with the local municipalities, R33million, CHDA subsidy R27.5 million, CDC subsidy, R8 million, Komani industrial park R2 million. This is also a prudent measure to avoid any potential unauthorized expenditures.

The **other expenditures** are estimated to be R152.3 million and represent an increase of 16.2% for 2022/23 financial year. Although this increase is more than the CPI index, however, this has considered the YTD as well as additional expenditures and inflationary price increases from suppliers for goods and services. The major core operational expenditures are related to electricity R44.6m, Fuel R17.6m, software licenses R2.6m, insurance premiums R3.8m, professional fees R4m, management fees for infrastructure implementation R8.2m, audit fees R9 m and other operational expenditure of the Municipality. This is also a prudent measure to avoid any potential unauthorized expenditures.

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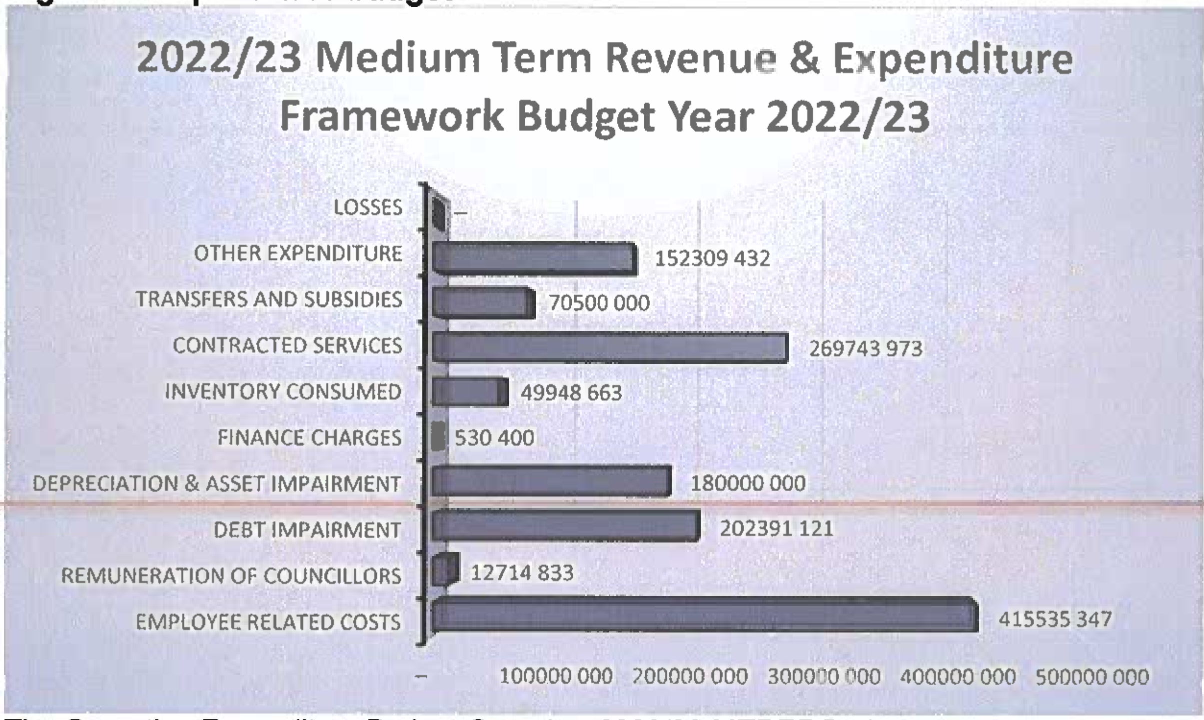
Figure 2: Expenditure budget



8. The Operating Expenditure Budget Overview 2022/23 MTREF Budget can be summarised as follows per Department –

Table 7: Overall Operating Expenditure 2022/23 MTREF Budget per Directorate (Table A3 Expenditure only)

DC13 Chris Hani - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)

Vote Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22		2022/23 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Expenditure by Vote to be appropriated	1								
Vote 01 - Council		28 287	27 626	24 123	22 912	22 510	23 268	24 291	25 384
Vote 02 - Municipal Manager		64 208	68 257	51 159	53 961	87 835	88 138	91 600	95 722
Vote 03 - Budget & Treasury		78 245	75 564	114 409	78 218	102 621	109 764	114 549	119 659
Vote 04 - Community Services		86 421	46 422	59 370	55 416	56 731	60 718	62 593	65 410
Vote 05 - Corporate Services		173 958	144 520	167 821	112 187	150 972	189 740	196 535	205 379
Vote 06 - Planning & Development		69 263	41 916	40 163	31 109	30 659	35 947	36 461	38 057
Vote 07 - Technical Services		678 804	824 602	862 987	787 280	759 512	844 321	990 388	937 400
Vote 08 - Roadworks		18 794	21 919	1 645	–	1 712	1 778	1 856	1 940
Total Expenditure by Vote	2	**1 197 979**	**1 250 825**	**1 321 676**	**1 141 083**	**1 212 554**	**1 353 674**	**1 518 274**	**1 488 952**
Surplus/(Deficit) for the year	2	**97 693**	**172 865**	**392 793**	**622 504**	**793 369**	**662 213**	**460 302**	**620 714**

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1. The Capital Expenditure Budget Overview 2022/23 MTREF Budget can be summarised as follows per Department –

Table 8: Overall Capital Expenditure 2022/23 MTREF Budget - Per function

DC13 Chris Hani - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding

Vote Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22		2022/23 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Capital Expenditure - Functional									
Governance and administration		**20 222**	**318**	**4 581**	**500**	**11 554**	**60 500**	**–**	**–**
Executive and council									
Finance and administration		20 222	318	4 581	500	11 554	60 500	–	–
Internal audit									
Community and public safety		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Community and social services									
Sport and recreation									
Public safety									
Housing									
Health									
Economic and environmental services		**995**	**16 397**	**–**	**15 000**	**17 597**	**4 000**	**–**	**–**
Planning and development		995	16 397	–	15 000	17 597	4 000	–	–
Road transport									
Environmental protection									
Trading services		**1 532**	**130**	**(2 939)**	**563 391**	**616 035**	**531 235**	**319 398**	**466 482**
Energy sources									
Water management		874	–	(2 939)	529 041	591 826	491 835	292 598	450 482
Waste water management		659	130	(0)	34 351	24 209	39 400	26 800	16 000
Waste management									
Other									
Total Capital Expenditure - Functional	3	**22 749**	**16 845**	**1 642**	**578 891**	**645 186**	**595 735**	**319 398**	**466 482**

Capital expenditure for the 2022/2023 financial year is estimated at R595,735,450 with a decrease of R44,450,864 or (-6.9%) less than the adjustments budget capital expenditure of R640,186,314 for 2021/2022. The available funding mix is very constrained due to the shrinking of the fiscus purse from the National government due to numerous impacts with COVID 19 included. This capital projects are funded from grants except for the CHDM assets OF R60.5 million that are to be funded from own funding although the Municipality is financially constraint to fund from own revenue. The detailed capital projects from own funded are reflected below.

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Table 9: Overall Capital Expenditure for the 2022/23 MTREF Budget – Funding source

DC13 Chris Hani - Table A5 Budgeted Capital Expenditure by vote funding

Vote Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22		2022/23 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Funded by:									
National Government		1 355	16 527	(3 044)	563 391	612 035	535 235	319 398	466 482
Provincial Government		–	–	105	–	5 000	–	–	–
District Municipality									
Transfers recognised - capital	4	1 355	16 527	(2 939)	563 391	617 035	535 235	319 398	466 482
Borrowing	6								
Internally generated funds		21 393	318	4 581	15 500	28 151	60 500	–	–
Total Capital Funding	7	22 749	16 845	1 642	578 891	645 186	595 735	319 398	466 482

Capital expenditure for the 2022/2023 financial year is estimated at R595,735,450 with a decrease of R44,450,864 or (-6.9%) less than the adjustments budget capital expenditure of R640,186,314 for 2021/2022. The available funding mix is very constrained due to the shrinking of the fiscus purse from the National government due to numerous impacts with COVID 19 included. This capital projects are funded from grants except for the CHDM assets OF R60.5 million that are to be funded from own funding although the Municipality is financially constraint to fund from own revenue. The detailed capital projects from own funded are reflected below.

The projected own funded capital projects are as follows:

Office furniture	R1,500,000
Computer Equipment	R12,000,000
Electronic Document Management System	R10,000,000
Fire Trucks (4)	R24,000,000
Compactor Trucks (4)	R 8,000,000
New Vehicles	R 5,000,000
TOTAL CHDM ASSETS – CRR FUNDING	**R60,500,000**

Table 10: Overall Capital Expenditure for the 2022/23 MTREF Budget – Departments

DC13 Chris Hani - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding

Vote Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22		2022/23 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Capital expenditure - Vote									
Multi-year expenditure *to be appropriated*	2								
Vote 01 - Council		-	-	-	-	-	-	-	-
Vote 02 - Municipal Manager		-	-	-	-	-	-	-	-
Vote 03 - Budget & Treasury		-	318	1 414	500	2 854	60 500	-	-
Vote 04 - Community Services		-	-	-	-	-	-	-	-
Vote 05 - Corporate Services		20 222	-	3 167	-	8 700	-	-	-
Vote 06 - Planning & Development		-	-	-	15 000	16 597	-	-	-
Vote 07 - Technical Services		2 527	16 527	(2 939)	563 391	617 035	535 235	319 398	466 482
Capital multi-year expenditure sub-total	7	22 749	16 845	1 642	578 891	645 186	595 735	319 398	466 482

4. BUDGET SCHEDULES AND OTHER SUPPORTING DOCUMENTATION

(i) The following budget tables have been completed and are attached as Annexure A: -

- Table A1 – Budget Summary.
- Table A2 – Budgeted Financial Performance (Revenue and Expenditure by standard classification);
- Table A3 – Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote);
- Table A4 – Budgeted Financial Performance (Revenue by Source and Expenditure by type);
- Table A5 – Budgeted Capital Expenditure by Vote, standard classification, and funding.
- Table A6 – Budgeted Financial Position.
- Table A7 – Budgeted Cash Flows.
- Table A8 – Cash Backed reserves / accumulated surplus reconciliation.
- Table A9 – Asset Management; and
- Table A10 - Basic service delivery measurement.

(ii) The supporting schedules SA1 to SA 38 are also included as part of Annexure A.

(iii) The most recent MFMA Budget Circular no 112 and 115 is included in the budget documentation as Annexure G.

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Financial implications:

R1Million and as per the report

Other parties consulted:

CHDM Management, LM's IDP/Strategic Managers

COGTA-EC, Eastern Cape Dept of Treasury, National Treasury

Budget Steering Committee, IDP/PMS Sections, Chris Hani District Agency

Resolutions:

It was resolved that:

1) CHDM Council **note** the CHDM 2022-2027 Draft IDP for further legislated consultation processes

2) CHDM Council **note** this 2022-2027 IDP with Chapter 7 of the Draft Performance Management Framework (PMS) for further legislated consultation processes

3) CHDM Council **note** this 2022-2027 IDP with Chapter 4 of Spatial Development Framework (SDF).

4) CHDM Council adopts this CHDM 2022-2027 Draft IDP as a Draft for further legislated consultation processes.

5) That Council **notes** and **adopt** the annual MTREF budget of the municipality for the financial year 2022/23 and the two outer years 2023/24 and 2024/25 as reflected in Table 1 and 3 above for Operating Revenue of R1,480,651,646 (2022/23) for further legislated consultation processes.

6) That Council **notes** and **approves** the annual MTREF budget of the municipality for the financial year 2022/23 and the two outer years 2023/24 and 2024/25 as reflected in Table 1 and 5 above for Operating Expenditure of R1,353,673,769 (2022/23) for further legislated consultation processes

7) That Council **notes** and **approves** the annual MTREF budget of the municipality for the financial year 2022/23 and the two outer years 2023/24 and 2024/25 as reflected in Table 8 above for Capital Expenditure of R595,735,450 (2022/23) for further legislated consultation processes.

8) That Council **notes** and **approves** the annual MTREF budget of the municipality for the financial year 2022/23 and the two outer years 2023/24 and 2024/25 as reflected in Table 8 above for Capital Funding of R595,735,450 (2022/23) for further legislated consultation processes.

9) The proposed total cost to municipality expenses for the salary, allowances and benefits of the Executive Mayor, Speaker, Deputy Executive Mayor, Chief Whip, Mayoral Committee members, ordinary councillors, Municipal Manager (MM), Chief Financial Officer (CFO) and Other Directors as set out in SA23 included in Annexure D be noted and approved by Council for further legislated consultation processes.

10) Council **notes** and **approves** the Annexure A (Budget schedules A1 to A10 and SA1 to SA 38), Annexure B (capital budget per department), Annexure C (summaries of the capital budget) for further legislated consultation processes;

11) That Council **note** the proposed tariffs as contained in Annexure D for the 2022/23 budget year for further legislated consultation processes.

12) That Council takes **note** of MFMA Budget Circular No.'s 112 and 115 attached as Annexure E.

13) That Council **notes** the changes to the budget related policies as attached in Annexure F for further legislated consultation processes.

14) That Council **notes** that version 6.6 of the mSCOA classification framework was used to prepare the budget.

15) That the proposed Indigent subsidy to approved registered indigent in terms of the Indigent Policy is noted for further legislated consultation processes.

16) The Consolidated Annual Budget of the Municipality for the 2022/23 MTREF and the multi-year and single year capital appropriations as set out in the annexures as tables is noted.

17) The following proposed tariff increases for the 2022/23 MTREF Annual Budget of the Municipality be noted and approved as follows: (i) Water for 4.5%, (ii) Sanitation 4.5% (iii) Flat rates for further legislated consultation processes

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18) The Annual Budget of the Chris Hani Development Agency for the 2022/23 MTREF and the multi-year and single year capital appropriations as set out in the annexures as tables for further legislated consultation processes.
(i) Budgeted Financial Performance (Revenue by source and Expenditure by Type);
(ii) Budgeted Financial Position; (iii) Budgeted Cash Flow.

19) The Annual Reviewed and New Budget Related Policies of the Chris Hani District Municipality for the 2022/23 MTREF **be noted** for further legislated consultation processes.

This is certified as a true copy of the original.

....	....
MR. G. MASHIYI	**CLLR J. CENGANI**
MUNICIPAL MANAGER	**SPEAKER OF COUNCIL**
(An official with the delegated authority to prepare the record of proceedings and implement Council resolutions).	(In his capacity as the Chairperson of the Council).

NATIONAL TREASURY

MFMA Circular No. 112

Municipal Finance Management Act No. 56 of 2003

Municipal Budget Circular for the 2022/23 MTREF

CONTENTS

Introduction

The purpose of the annual budget circular is to guide municipalities with their compilation of the 2022/23 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 (*m*SCOA), 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, *m*SCOA 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 in areas of the 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 5.1 per cent in 2021, following an expected contraction of 6.4 per cent in 2020. Real GDP growth is expected to moderate to 1.8 per cent in 2022,1.6 per cent in 2023 and 1.7 per cent in 2024.

South Africa experienced its largest recorded decline in economic output in 2020 due to the strict COVID-19 lockdown. Real GDP contracted by 7.2 per cent in 2020 compared to 0.1 per cent increase in 2019. It is expected to increase by 6.2 per cent in 2021/22 and moderate by an average increase of 1.7 per cent over the 2022/23 MTEF.

Manufacturing production grew by 17 per cent in the first six months of 2021 compared with the same period in 2020. Production has not recovered to pre-pandemic levels, although the Absa Purchasing Managers' Index remains above the neutral 50-point mark. Electricity disruptions, raw material shortages and rising input costs will continue to limit output in the short to medium term.

The main risks to the economic outlook are slowdown in economic growth. The evolution of COVID-19 and slow progress in vaccine rollout reinforces uncertainty and poses risks to economic recovery.

Slow implementation of structural reforms continues to weigh on business confidence and private investment. Electricity supply constraints, which could worsen over the short term, are a drag on economic growth. In contrast, progress on energy reforms poses upside risks to fixed investment and the overall economic outlook.

A further deterioration in the public finances due to various spending pressures and the materialisation of contingent liabilities could trigger further credit rating downgrades. Pressures on the government wage bill ceiling, including the implementation of the non-pensionable salary increases undermine fiscal consolidation measures.

The fiscal framework does not include any additional support to state-owned companies, but the poor financial condition and operational performance of several of these companies remains a large contingent risk. A number of entities may request further bailouts.

Government is strictly enforcing minimum criteria before guaranteeing the debt of state-owned companies, as outlined in the 2021 Budget, which has led to a decline in guarantee requests. Nonetheless, the broader context of financial distress, weak governance and unsustainable operations in many of these companies remains unaddressed.

Since the 2008 global financial crisis, economic growth has trended downwards, resulting in persistent shortfalls in tax revenue that have not been matched by adjustments to spending growth. This in turn has led to wider budget deficits, higher borrowing and a rapid increase in the ratio of debt to GDP. The reason that the debt servicing costs are growing at a pace that is faster than the rate of GDP growth, and this ratio will continue to increase until government runs a sufficiently large primary budget surplus.

To maximise the value of spending, government needs to contain costs, more especially consumption related spending, exercise prudent and compliant financial management, and eradicate wasteful treatment of public funds and resources. Compensation of employees remains a major cost pressure. It remains critical for municipalities to adhere to compensation ceilings, manage headcounts proactively and conduct staff audit to ensure the staff complement is aligned to the approved organogram. This will assist government is to improve its fiscal position.

Medium-term priorities include: reindustrialising through implementation of the master plans; growing exports through the African Continental Free Trade Area; implementing the Tourism Sector Recovery Plan; supporting township and rural economies; and promoting localisation, inclusive economic growth and job creation.

In 2021/22, gross tax revenue is expected to be R120.3 billion higher than projected in the 2021 Budget, with corresponding improvements of R69.8 billion and R59.5 billion expected in 2022/23 and 2023/24 respectively. This is still well below pre-pandemic revenue estimates, but it provides space for government to deal with immediate fiscal pressures while continuing to stabilise the public finances.

Headline inflation is expected to remain between 3 to 6 per cent target range over the 2022/23 MTEF.

In summary, the tax revenue in 2021/22 was higher than projections and this was mainly due to commodity price rally. However, these are projected to be short term, and as such long-term spending commitments should not be made based on short term revenue benefits. There are measures in place to reduce expenditure to narrow the budget deficit.

The following macro-economic forecasts must be considered when preparing the 2022/23 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections, 2020 - 2025

Fiscal year	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Estimate		Forecast	
CPI Inflation	2.9%	4.9%	4.0%	4.4%	4.5%

Source: Medium Term Budget Policy Statement 2021.

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 2022/23 budget process

2.1 Local government conditional grants allocations

Over the 2022 MTEF period, transfers to municipalities will grow below inflation. Over the next three years, local government resources increase by 4.1 per cent.

Transfers to local government will be increased by R17.8 billion, including R9.3 billion from the local government equitable share, R1.5 billion from the general fuel levy and R6.9 billion in direct conditional grants over the 2022 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 2022 MTEF period.

The annual Division of Revenue Bill will be published in February 2022 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 2021 Division of Revenue Act to compile their 2022/23 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 2021 Division of Revenue Act for 2021/22. The DoRA is available at:
http://www.treasury.gov.za/documents/national%20budget/2021/default.aspx

Division of Revenue Amendment Bill, 2021: changes to local government allocations

Budget Facility for Infrastructure Funding – R81 million is added to the direct regional bulk infrastructure grant for George Local Municipality for the implementation of the potable water security and remedial works project. Due to delays in the implementation of projects approved through Budget Facility for Infrastructure (BFI), the projects sponsors have requested funding to be reduced to align with the planned project rollout.

R1.3 billion is reduced from the public transport network grant for City of Cape Town to align to its revised implementation plan of myCiti phase 2A.

Neighbourhood Development Partnership Grant – R841 million is added to the direct neighbourhood development partnership grant for local government to create 32 663 jobs through precinct management, community safety, place-making, greening, integrated waste management and digitalisation, with special focus on poor and marginalised areas and economic nodes.

Roll-over of indirect regional bulk infrastructure grant – R582 million is rolled over in the indirect regional bulk infrastructure grant to fund the operational payments for the Vaal River pollution remediation project in Emfuleni Local Municipality. This change is shown in Schedule 6, Part B of this Bill.

Reprioritisation in the neighbourhood development partnership grant – In the neighbourhood development partnership grant, R90 million is shifted from the direct component to the indirect component of the grant, to fund project preparation, planning and implementation for municipalities facing implementation challenges. The affected municipalities are City of Johannesburg, Mogale City, Kwa-Dukuza, West Rand, Sol Plaatje, Ray Nkonyeni and City of Cape Town. These changes are shown in Schedule 5, Part B and Schedule 6, Part B of this Bill.

Changes to gazetted frameworks and allocations

Neighbourhood development partnership grant – The grant framework for the neighbourhood development partnership grant is amended to remove reference to Built

Environment Performance Plans and include the conditions attached to the approval of funds from the Presidential Youth Employment Initiative. The conditions require cities to expand the existing Expanded Public Works Programme projects and enter into new partnerships with the private sector and civil society.

Regional bulk infrastructure grant – The grant framework for the regional bulk infrastructure grant is amended to include the conditions attached to the approval of funding from the BFI for the implementation of the potable water security and remedial works project in George Local Municipality. The conditions require that the municipality submit a business plan, a cost-benefit analysis report and enter into a co-financing agreement with the Department of Water and Sanitation and the Department of Cooperative Governance.

Integrated urban development grant – The grant framework for the integrated urban development grant is amended to include a provision for purchasing special vehicles for waste management. This correction is needed to ensure alignment with conditions in the municipal infrastructure grant as municipalities can move between the two grants.

Municipal infrastructure grant – The grant framework for the municipal infrastructure grant is amended to correct for the omission of the baseline allocation of R14.8 billion in 2019/20 in the past performance section of the framework. The amount was erroneously not captured. This correction is needed to show the audited past financial performance of the grant.

3. IDP Consultation Process Post 2021 Local Government Elections

Municipalities are advised to refer to the guidance (refer to the email sent by CoGTA to all municipalities on 20 October 2021) provided through the joint National Treasury/ Department of Cooperative Governance/ South African Local Government Association (NT/DCoG/SALGA) Joint Circular No.1 on the transitional measures in relation to the IDP consultation process. This circular indicates that the previous municipal councils had an obligation to ensure that the legislative stipulations were complied with. Therefore, they were expected to continue the process of the development of the IDP starting with the development and adoption of the process plans as provided for in section 28 of the Municipal Systems Act. Municipalities should then implement the adopted budget process plan and conduct the public engagements as per dates they have indicated in the process plan.

4. Municipalities unable to pass the annual budget after 1 July

The provincial executive council must urgently request the Mayor to submit a report outlining detailed reasons and or circumstances that led to failure to approve the annual budget by the 1 July.

The provincial executive council must intervene in terms of section 139(4) of the Constitution and take appropriate steps by issuing a directive to the municipal council to approve a budget and any revenue raising measures necessary to give effect to the budget within a reasonable period.

Section 26(4) and (5) of the MFMA provides for how the expenses can be met pending the approval of a budget through a directive. Provincial Treasuries should establish clear internal processes for reviewing and recommending the approval of withdrawals by their MEC (templates can be obtained from National Treasury).

The provincial executive council must upon issuing of a directive to the Municipal Council conduct an assessment of the budget tabled by the Mayor against the norms and standards, approved budget process plan, and the outcome of public participation processes.

In the event the Municipal Council fails to approve a budget due to walk out or individual misconduct by a majority of councillors, the Speaker must immediately investigate the conduct of those identified councillors in terms of the Code of Conduct for councillors as provided for in the Municipal Systems Act, 2000.

If in terms of the assessment by the provincial executive council of the tabled budget, it is found that there are no justifiable grounds for not approving the budget, the former must submit/ present the outcome of the assessment to the Municipal Council with a directive to consider the assessment and adopt the budget. If the assessment of the provincial executive council of the tabled budget finds that it does not adhere to the required norms and standards, the directive from the provincial executive council should instruct the council to first amend the budget to remedy this before adopting the budget.

The provincial executive council must, if necessary give the municipal council a further 14 days to approve a tabled budget that complies with norms and standards and incorporates the outcome of public participation, failing which the provincial executive council must consider dissolution of municipal council, approval of a temporary budget and appointment of an administrator as a last resort.

5. Municipal Standard Chart of Accounts (*m*SCOA)

5.1 Release of Version 6.6 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 6.6 is released with this circular.

> Version 6.6 of the chart will be effective from 2022/23 and must be used to compile the 2022/23 MTREF and is available on the link below:
> http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx

The Project Summary Document (PSD) on the National Treasury webpage will be aligned to the chart changes in version 6.6 where applicable. The PSD is also available on the above link.

*m*SCOA chart changes are issued annually in December. For the National Treasury to consider a new chart change, the issue must be logged with all relevant background and details on the Frequently Asked Questions (FAQ) database. The FAQ database can also be accessed on the above link.

The matter will then be further investigated by the FAQ committee of the National Treasury. If it is found that a chart change is required in the next chart version, then the matter will be elevated to the *m*SCOA Technical Committee and if in agreement, it will be recommended for approval to the *m*SCOA Steering Committee. Requests for chart changes in the next version of the chart must be logged for consideration by 31 August of each year.

5.2 Credibility of *m*SCOA data strings

The credibility of the *m*SCOA data strings remains 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; have not purchased all the modules of the core financial system or have not upgraded to the Enterprise Resource Planning (ERP) (*m*SCOA enabling) version of their financial systems;
- A number of municipalities are still transacting on their legacy systems that are not *m*SCOA enabling or they are using Ms Excel spreadsheets that are not incorporated in the functionality of their financial systems, while they are paying for maintenance and support for the *m*SCOA enabling system that was procured. This constitute fruitless and wasteful expenditure; 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 2022/23, 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.

Municipalities should refer to the guidance provided in the *m*SCOA circulars issued by the National Treasury to classify their transactions correctly.

The credibility and accuracy of the data strings must be verified by municipalities before submission as the data strings submitted will be used as the single source for all analysis and publications in the 2022/23 municipal financial year.

5.3 Regulation of Minimum Business Processes and System Specifications

One of the key objectives of the *m*SCOA reform is to ensure that municipalities are planning, 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 *m*SCOA Regulations.

All municipalities and municipal entities had to comply with the *m*SCOA Regulations by 1 July 2017. MFMA Circular No. 80 (Annexure B) provided guidance on the minimum business processes and system specifications for all categories of municipalities (A, B and C). A number of Regulations and best practices as per the MFMA Circulars have been introduced since the issuing of MFMA Circular No. 80 in 2016.

The National Treasury will expand and regulate the business processes and system specifications in 2022/23 to these new developments. If your municipality has not yet achieved the minimum required level of *m*SCOA implementation, then a detailed action plan (road map) must be developed to indicate how the municipality will fast track the implementation of *m*SCOA. The action plan should include the following focus areas, as applicable to the municipality:

- **System landscape** – does the municipality has access to updated ICT hardware, software and licences that is sufficient to run the chosen financial management systems solution;
- **Governance and institutional arrangements** – is there a functional *m*SCOA steering committee or equivalent structure consisting of representatives from all business units, that meet regularly to monitor and report on *m*SCOA related issues to Management Committee (MANCO), Executive Committee (EXCO) and Council. Furthermore, did the

municipality appoint a suitably qualified System Administrator and the required IT securities are in place;

- **System functionality** – is the functionality of the system complying with the minimum business processes and system specifications articulated in MFMA Circular No 80; is the municipality utilising the core financial system solution and its modules optimally; and are 3rd party sub-systems seamlessly integrating with the *m*SCOA enabling financial system; and
- **Proficiency of municipal officials to use the financial system** – are the relevant municipal officials sufficiently capacitated on all system modules and functionalities to use the financial systems solution; are relevant officials in the organisation familiar with the *m*SCOA chart, balance sheet budgeting and movement accounting; and have change management taken place to ensure that *m*SCOA is institutionalised as an organisational reform and not only a financial reform.

It should be emphasised that the onus to ensure compliance with the *m*SCOA 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 should ensure that they budget sufficiently to become and remain *m*SCOA compliant.

The progress against the action plan must be monitored by the municipality's *m*SCOA Project Steering Committee and should also be reported at the 2021/22 Mid-year Budget and Performance engagements and the Budget and Benchmark engagements with the National and the respective provincial treasury. Copies of the action plan and progress reports should also be shared with the National and the respective provincial treasury.

5.4 Extension of RT25-2016 Service Level Agreements (SLA) for Financial Systems

The National Treasury has received numerous queries about the extension of the SLA for the transversal contract for the procurement of municipal systems of financials management and internal control (RT25-2016).

The RT25-2016 contract has expired in May 2019. Therefore, the RT25-2016 cannot be utilised to procure financial systems and Service Level Agreements (SLAs) entered into through the transversal contract cannot be extended when they expire. Municipalities that procured systems through the RT25-2016 transversal tender must approach the market to procure a new service provider for system support and maintenance. Due to the high financial investment in procuring financial systems, it is not cost effective to change financial systems every 3 to 5 years. Also, the expiry of the SLA does not necessitate the procurement of a new financial system - unless the system that is being used is not complying with the required business processes and system specifications.

Furthermore, the Municipal SCM Regulations does not prohibit the use of long-term contracts as long as the needs analysis and market analysis are done to justify the continuous need for the service. Municipalities may utilise Section 33 of the MFMA, taking into account the municipality's specific circumstances, provided that the decision is legally sound and there is evidence to support the municipality's decision.

Where a municipality has entered into a SLA for the provision of system support and maintenance through an open procurement process, the SLA may be extended in terms of Section 116(3) of the MFMA.

Notwithstanding the above, since the ICT environment changes very quickly the municipal needs must be re-evaluated to ensure that the IT systems in place are still 1) compatible with the needs and systems of the municipality, 2) aligned to modern technology and new legislative requirements and 3) cost effective prior to concluding long-term maintenance and support agreements in the event that there are other financial management solutions or systems that may be better or even more cost effective as opposed to the current ones that may be outdated.

5.5 *m*SCOA Monthly Trial Balance

Municipalities are required to submit the following documents to GoMuni Upload portal on a monthly basis in PDF format:

1. C Schedule
2. Primary Bank Statement
3. Bank Reconciliation
4. Quality certificate
5. Monthly budget statement (Section 71 Report)
6. Trial balance

To date, the trial balances were submitted in various formats with varying levels of detail – some of them unreadable, making it difficult to identify the submission of the trial balances. From 1 July 2022, the trial balance must include the following minimum information:

- *m*SCOA item description
- Balance brought forward (i.e. opening balance)
- Movement Debit
- Movement Credit
- Balanced closing balance at the end of the document

The name of the municipality, municipal code and relevant period (year and month) must be clearly identified in the submission. Municipalities should ensure that the monthly data string aligns to the trail balance submitted to the GoMuni Upload portal.

5.6 Budgeting for the COVID-19 pandemic

In terms of *m*SCOA Circular No. 9 municipalities are reminded to record and ring fence all funding and expenditure pertaining to the COVID-19 pandemic when budgeting and transacting.

It is evident from the *m*SCOA data strings that were submitted by municipalities in terms of the monthly Section 71 reporting that not all municipalities are budgeting and reporting on COVID-19 related allocations and expenditure as per the guidance provided. Therefore, the National Treasury is not able to draw complete COVID-19 reports from the *m*SCOA data strings inclusive of the data for all municipalities as yet and the weekly manual reporting is still required.

Once the National Treasury is able to draw COVID-19 reports from the *m*SCOA data strings for the majority of municipalities and the Covid-19 restrictions is lifted as per the Disaster Management Act, 2002 (Act 57 of 2002) and its regulations, the weekly manual reporting will be stopped.

5.7 Costing Segment

The purpose of the costing segment in *m*SCOA is to provide for the recording of the full cost for the four core municipal functions, namely: electricity, water, waste water and waste management as a minimum requirement. These four services are the most significant revenue generating functions within municipalities and essential for setting cost reflective tariffs.

The costing segment does not impact on the financial statements and will be recorded as a 'below the line cost' and are recorded in the management accounts to make decisions in formulating tariffs and cost control. Municipalities must refer to the PSD for the detailed application of the costing segment.

5.8 Classification of the Skills Development Levy

Employers must pay 1 per cent of their employees pay to the skills development levy. This is a contribution of 1 per cent of the total amount paid in respect of salaries to employees, which includes overtime payments, leave pay, bonuses etc. Therefore, this does not constitute employee related cost because it is not a compensation to employees, nor social contributions. Skills Development levy must be classified as operational costs as indicated in the *m*SCOA Project Summary Document (PSD).

5.9 Revised Municipal Property Rates Act Categories

Reference is made to paragraph 4.3 of MFMA Circular No. 107. Municipalities are reminded 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").

Municipalities were required to implement the new property categorisation framework by not later than 1 July 2021. The *m*SCOA chart Version 6.6 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.

6. The revenue budget

Similar to the rest of government, municipalities face a difficult fiscal environment. The weak economic growth has put pressure 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.

Municipalities must ensure that they render basic services, maintain their assets and clean environment. Furthermore, there must be continuous communication with the community and other stakeholders to improve the municipality's reputation. This will assist in attracting investment in the local economy which may result in reduced unemployment. Some municipalities are experiencing serious liquidity challenges. Therefore, the new leadership is advised to:

- Decisively address unfunded budgets by reducing non-priority spending and improving revenue management processes to enable collection; and
- Address service delivery failures by ensuring adequate maintenance, upgrading and renewal of existing assets to enable reliable service delivery.

It should be noted that it is easier for consumers to pay for services if they are reliable and when the environment is well maintained.

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 2022/23** 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.

6.1 Maximising the revenue generation of the municipal revenue base

Reference is made to MFMA Circulars 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 2022/23 MTREF budgets from realistically anticipated revenues to be collected. Municipalities are cautioned against assuming collection rates that are unrealistic and unattainable as this is a fundamental reason for municipalities not attaining their desired collection rates.

It is essential that municipalities reconcile their most recent valuation roll data to that of the billing system to ensure that revenue anticipated from property rates are accurate. Municipalities should undertake this exercise annually as a routine practice during the budget process. 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 information with the Deeds Office registry. In accordance with the MFMA Circular No. 93, municipalities are once more requested to submit their annual reconciliation of the valuation roll to the billing system to the National Treasury by no later than **04 February 2022**.

The above information must be uploaded by the municipality's approved registered user(s) using the GoMuni Upload Portal at: https://lguploadportal.treasury.gov.za/. If the municipality experience any challenge uploading the information a request for an alternative arrangement may be emailed to linda.kruger@treasury.gov.za.

6.2 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 (Financial and Fiscal Commission (FFC), 2011). Credible budgets are critical for local government to fulfil its mandate and ensure financial sustainability.

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

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

Municipalities are encouraged to utilise the tariff setting tool referenced in MFMA Circular No. 98, item 4.2. This tool will assist in setting tariffs that are cost-reflective and would enable a municipality to recover costs to fulfil its mandate. The National Treasury Municipal Costing Guide is 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

It is also imperative that every municipality is utilising the *m*SCOA cost segment correctly.

6.3 Bulk Account Payments and Concessions

During 2018/19, intense work was 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 agreed to provide relieve in certain areas. Municipalities are reminded of the following concessions that remain in place:

- The interest rate charged on overdue municipal bulk accounts were reduced from prime plus 5 per cent to prime plus 2.5 per cent;
- Payment terms were extended from 15 days to 30 days for municipal bulk accounts; and
- Eskom allocation of municipality payments to capital first and then to interest.

These concessions align to the MFMA and are meant to curb municipal growing debt levels by allowing a more conducive payment regime than what was previously employed. In addition, municipalities are urged to budget for and ring-fence their payment of bulk services. Bulk current account payments must be honoured religiously to avoid stringent application of the bulk suppliers' credit control policy.

Municipalities are also advised to enforce a culture of payment for services through their normal credit control processes. In this regard it should be noted that municipalities are only compensated for free basic services based on an indigent user component calculation through the equitable share. As such, a municipality's allocation of free basic services to all of the municipality's consumers is not funded in the equitable share. Every municipality, during the budget process, must consider the affordability to the municipality when allocating free basic services above the national norm and to consumers other than indigent consumers. **If a municipality has any arrears on any of its bulk supplier's accounts, it must limit its provision of free basic services to registered indigent consumers only**.

In this regard municipalities are reminded to take note of the Constitutional Court decision in **Mazibuko and Others vs City of Johannesburg and Others (CCT 39/09) [2009] ZACC 28; 2010 (3) BCLR 239 (CC); 2010 (4) SA 1 (CC) (8 October 2009)**. The Constitutional Court confirmed that a municipality has the right to disconnect the water service in the event of non-payment. In the case of registered indigent users, water may not be disconnected but can and should be restricted to the national policy limit of 6 kilolitres of water monthly.

6.4 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.

6.5 Smart Prepaid Meters Solution

The Inter-Ministerial Task Team (IMTT) of the 5th administration appointed a panel to investigate the electricity function to better understand what is causing the non-payment to Eskom. Cabinet subsequently endorsed the panel's recommendation that a smart prepaid solution for all municipalities must be explored. Municipalities are advised that the National Treasury, through the Office of the Chief Procurement Officer (OCPO), will soon facilitate a transversal contract to standardise prepaid smart meter solutions for electricity that align to minimum and critical technical specifications for local government.

If your municipality or entity is currently in the process of procuring any smart meter solution or is planning to, you are cautioned:

- Against proceeding prior to the OCPO having issued and awarded the transversal prepaid smart meter Terms of Reference (ToR); and
- That, with immediate effect, you must obtain the National Treasury's input prior to proceeding with any current procurement or proposed procurement for any smart meter solution or similar system solution. This is to prevent unnecessary and wasteful expenditure on such solutions. Any request for National Treasury's input on the current or planned procurement of any smart meter solution or similar system solution or component thereof, must be directed to the National Treasury for the attention of the Local Government Budget Analysis Unit (Mr. Sadesh Ramjathan) Sadesh.Ramjathan@treasury.gov.za.

Your assistance in proactively ensuring that the municipality and/ or its entities are not adversely affected by these processes will be appreciated.

6.6 Completeness and credibility of revenue related information in the Budget

The Municipal Budget and Reporting Regulations (MBRR) regulates the minimum level of information required from municipalities when compiling, implementing, monitoring, and evaluating the municipality's financial management situation. Failure to include the minimum required information hampers the municipal council, the public and stakeholders' ability to make informed decisions and engage on the matter. It also limits research, studies, and benchmarking undertaken for local, provincial, and national purposes.

The National Treasury would like to take this opportunity to caution municipalities that the MBRR prescribe the minimum level of information municipalities must include as part of their legal reporting obligations.

Going forward the Treasuries will place increased attention and focus on the adequacy of municipalities' submissions. The National Treasury regards this non-compliance to include the minimum level of information as serious and if persistent will consider applying the available legal sanctions, including recourse in terms of section 216(2) of the Constitution. In this context, National Treasury will particularly focus on the completeness of asset management related information as well as the statistical information required in the A, B and C schedules during the 2022/23 MTREF.

6.7 Eskom Bulk Tariff increases

The National Energy Regulator of South Africa (NERSA) is responsible for price determination of the bulk costs for electricity. Bulk electricity costs are consistently much higher than inflation, having gone as high as 17.8 per cent in the 2021/22 municipal financial year. Eskom's need for increased funding means that over the period ahead they are applying for much higher tariff increases. In their Multi-Year Price Determination (MYPD 5) application Eskom requested approval for municipal bulk tariff increases of 20.5 per cent in 2022/23, 15 per cent in 2023/24 and 10 per cent in 2024/25. NERSA rejected this revenue application at the end of September 2021 and in October 2021 ESKOM filed an application in the High Court to review NERSA's decision. The matter is still in court with a decision anticipated to be made shortly. If Eskom succeeds, the court will compel NERSA to process the rejected application for tariffs for the year starting 1 April 2022 in terms of the existing MYPD methodology. NERSA will then be expected to immediately publish Eskom's application for public comment.

6.8 Long Term Financial Strategies

National Treasury is supporting municipalities to develop and implement long-term financial models and strategies. This reform seeks to develop more sustainable, and integrated infrastructure development programmes over the longer term, informed by strategic plans, and financed in the most effective and efficient manner.

Although some municipalities have long-term financial models (LTFM), they are not always integrated with municipal plans, or based on actual cash flow analysis and investment programmes, or able to consider alternative financial scenarios and outcomes in relation to the ability to borrow and the structuring of market transactions.

Municipalities need to develop LTFM that support decisions on investment selection and assesses the financial impact of policy choices, by forecasting future financial performance and the impact of infrastructure projects on borrowing capacity. The LTFM needs to inform the municipality's long-term financial strategy, which must articulate a sustainable, efficient and effective borrowing strategy and practices for the municipality and provide a clear statement of intent for lenders and other stakeholders.

National Treasury has initiated this reform in the metropolitan municipalities and some of the Intermediate City municipalities and will continue with this reform in the next financial year. Based on the piloting of this reform, guidance will be provided to all municipalities to develop and implement LTFM's and strategies.

7. 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 2022/23 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;
- Strictly control the use of costly water tankers and fix the water infrastructure to enable the sustainable provision of water;
- Prioritise the filling of critical vacant posts, especially linked to the delivery of basic services; 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.

7.1 Employee related costs

The Salary and Wage Collective Agreement for the period 01 July 2021 to 30 June 2024 dated 15 September 2021 through the agreement that was approved by the Bargaining Committee of the Central Council in terms of Clause 17.3 of the Constitution should be used when budgeting for employee related costs for the 2022/23 MTREF. In terms of the agreement, all employees covered by this agreement shall receive with effect from 01 July 2022 and 01 July 2023 an increase based on the projected average CPI percentages for 2022 and 2023. The forecasts of the Reserve Bank, in terms of the January 2022 and January 2023, shall be used to determine the projected average CPI. Municipalities are encouraged to perform an annual head count and payroll verification process by undertaking a once-a-year manual salary disbursement, in order to root out ghost employees.

7.2 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. Any overpayment to councilors contrary to the upper limits as published by the Minister of Cooperative Governance and Traditional Affairs will be irregular expenditure in terms of Section 167 of the MFMA and must be recovered from the councilor(s) concerned.

8. TRANSFERS TO MUNICIPALITIES

8.1 Criteria for the release of the Equitable Share

Section 216(2) of the Constitution of South Africa requires that the National Treasury must enforce compliance with the measures established to ensure both transparency and expenditure control in each sphere of government and may stop the transfer of funds to an organ of state if that organ of state commits a serious or persistent material breach of those measures.

The criteria for the release of the Equitable Share Instalments for the 2022/23 municipal financial year are as follows:

- The 2022/23 adopted budget must be funded and adopted by Council as per the legal framework, as required in terms of section 18 of the MFMA and consistent with the Budget Council and Budget Forum resolutions;
  a. The adopted budget must include budget allocations for bulk suppliers current account payments;
  b. Should the adopted budget still be unfunded, then a funding plan will be required to show how the municipality intends moving progressively out of this position into a funded state, if this plan has been adopted in the past, then a progress report must be submitted on the framework previously shared to guide municipalities which is aligned to the rescue phase of the new approach to Municipal Financial Recovery Service (MFRS);
  c. Those municipalities that adopted an unfunded budget must work with their respective Provincial Treasuries to rectify this position in the lead up to the main adjustments budget process in February 2023; and
  d. A council resolution showing commitment to address the unfunded position must be submitted by these municipalities to the National Treasury by 01 July 2022.

- Credible *m*SCOA data strings and source documents for the 2022/23 MTREF and 2021/22 audits must be generated directly from the core municipal financial system and successfully uploaded to the Local Government GoMuni Portal. Source documents must be submitted in PDF and no excel based spreadsheet/ templates will be accepted;
- The report submitted by bulk suppliers in terms of section 41 of the MFMA must indicate that the current account has been paid timeously in terms of section 65(2)(e) of the MFMA. In addition, where the municipality has a repayment plan with Eskom and/ or the water boards, proof that the current accounts have been paid and a copy of the agreed upon payment plan (or evidence of negotiations underway with creditors) must be submitted to the National and provincial treasuries;
- Municipalities must provide evidence that SARS, pension and other staff benefits deducted from municipal officials have been paid over the appropriate Funds and/ or institutions;
- The information requested in MFMA Circulars No. 93, 98 and 107 on the reconciliation of the valuation roll have been submitted to the National Treasury as per the required timeframes;
- The Competency Regulations reporting requirements have been complied with;
- Provide a copy of the Unauthorised, Irregular, Fruitless and Wasteful (UIF&W) expenditure register, the latest copy of the Municipal Public Accounts Committee (MPAC) recommendations, Council Resolution on UIFW as well as council approved UIFW Reduction Strategy, proof of establishment of the Disciplinary Committee Board (or evidence of progress towards their establishment) and updated audit action plan (where the audit has been completed);
- Those municipalities that received an adverse or disclaimed opinions for the 2020/21 financial year will not receive their funding allocation unless there is a council resolution committing to address these opinions with an implementable plan. The resolution must be signed by each member of the Council and submitted to National Treasury by 1 October 2022;
- The Municipal Financial Recovery Service progress reporting framework for financial recovery plans must be complied with by municipalities under intervention in terms of S139 of the Constitution;
- Additionally, those municipalities that have outstanding audits for both the 2019/20 and 2020/21 financial years as well as municipalities with outstanding 2020/21 audit opinions that also received an adverse or disclaimer opinion in 2019/20, will also not receive their allocation; and
- Any other outstanding documents as per the legal framework have been submitted including the AFS submission (municipality only and consolidated AFS).

Failure to comply with the above criteria will result in National Treasury invoking section 38 of the MFMA which empowers National Treasury to withhold a municipality's equitable share if the municipality commits a serious or persistent breach of the measures established in terms of Section 216(2) of the Constitution which includes reporting obligations set out in the MFMA and National Treasury requests for information in terms of Section 74 of the MFMA.

9. The Municipal Budget and Reporting Regulations

9.1 Schedule A - version to be used for the 2022/23 MTREF

National Treasury has released Version 6.6 of the Schedule A1 (the Excel Formats) which is aligned to Version 6.6 of the *m*SCOA classification framework and must be used when compiling the 2022/23 MTREF budget.

All municipalities must prepare their 2022/23 MTREF budgets in their financial systems and produce the Schedule A1 directly from their financial system.

Municipalities must start early enough to capture their tabled budget (and later the adopted budget) in the budget module in the financial system and must ensure that they produce their Schedule A1 directly out of the budget module. **Manual capturing on A1 schedule version 6.6 is not allowed** in terms of the *m*SCOA Regulations.

National Treasury has protected the A1 schedule version 6.6 in order to ensure that the Schedule A1 generated directly from the financial system and not populated manually.

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 6.6. The revised MBRR Schedules for the 2022/23 MTREF and its linkages to the financial and non-financial data string are available on the link below:

http://mfma.treasury.gov.za/RegulationsandGazettes/Municipal%20Budget%20and%20Reporting%20Regulations/Pages/default.aspx

9.2 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	Matjatji.Mashoeshoe@treasury.gov.za
	Abigail Maila	012-395 6737	Abigail.Maila@Treasury.gov.za
Buffalo City	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
Free State	Sifiso Mabaso	012-315 5952	Sifiso.mabaso@treasury.gov.za
	Cethekile Moshane	012-315 5079	Cethekile.moshane@treasury.gov.za
Gauteng	Matjatji Mashoeshoe	012-315 5553	Matjatji.Mashoeshoe@treasury.gov.za
	Abigail Maila	012-395 6737	Abigail.Maila@Treasury.gov.za
Johannesburg and Tshwane	Willem Voigt	012-315 5830	WillemCordes.Voigt@treasury.gov.za
Ekurhuleni	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
KwaZulu-Natal	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
	Kevin Bell	012-315 5725	Kevin.Bell@treasury.gov.za
eThekwini	Sifiso Mabaso	012-315 5952	Sifiso.mabaso@treasury.gov.za
Limpopo	Sifiso Mabaso	012-315 5952	Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
	Lesego Leqasa		Lesego.Leqasa@treasury.gov.za
Northern Cape	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
	Phumelele Gulukunqu	012-315 5539	Phumelele.Gulukunqu@treasury.gov.za
North West	Willem Voigt	012-315 5830	WillemCordes.Voigt@treasury.gov.za
	Makgabo Mabotja	012-315 5156	Makgabo.Mabotja@treasury.gov.za
Western Cape	Willem Voigt	012-315-5830	WillemCordes.Voigt@treasury.gov.za
Cape Town	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
George	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
Technical issues with Excel formats	Sephiri Tlhomeli	012-406 9064	lgdataqueries@treasury.gov.za

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

9.3 Assessing the 2022/23 MTREF budget

National and provincial treasuries will assess the 2022/23 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 **01 April to 30 June 2022 for both the tabled and adopted budgets**. In this 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 10th 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**.

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.

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 funding plan and ensure that it is credible. The credible funding plan must be immediately adopted by the Municipal Council, and the changes to the budget must be effected in the mid-year adjustments budget to ensure compliance with 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.

10. Submitting budget documentation and A1 schedules for 2022/23 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 2022**, the final date of submission of the electronic budget documents and corresponding *m*SCOA data strings is **Friday, 01 April 2022**; and
- Section 24(3) of the MFMA, read together with regulation 20(1) of the MBRR, requires that the approved annual budget must be submitted to both National Treasury and the relevant provincial treasury within ten working days after the council has approved the annual budget. However, given that municipalities are generating the annual budgets directly from the financial system as required by the *m*SCOA Regulations and that the budgets must be verified before it is locked on the financial system and transacted against, municipalities must submit the approved budget to the National Treasury and the relevant provincial treasury in electronic formats ***immediately*** after approval by the municipal council. Therefore, if the annual budget is tabled to council **on 31 May 2022,** the final date of submission of the electronic budget documents and corresponding *m*SCOA data strings is **Wednesday, 01 June 2022.**

Since the 2020/21 MTREF, municipalities are no longer required 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. Electronic copies must be submitted in pdf format to the GoMuni Upload portal.

10.1 Expected submissions for 2022/23 MTREF

The following information should be submitted for the 2022/23 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, SA22, SA23, SA24 etc. and any other information not contained in the financial data string) in the A1 schedule must be submitted in the prescribed *m*SCOA data string in the format published with Version 6.6 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.

10.2 Go Muni Upload Portal

The National Treasury is in the process of finalising the development work on the GoMuni Upload portal. Municipalities, provincial treasuries, system vendors and sector departments should ensure that the names and contact details of the data uploaders or users of the data, as reflected on the LG Database, for their respective institutions are correct and updated as and when changes occur.

10.3 Portals for the submission of information

Municipalities must ensure that the documents are submitted to the correct portals/ mailboxes. These portals/ mailboxes are:

https://lguploadportal.treasury.gov.za (GoMuni Upload Portal) – All documents required in terms of legislation, including:

- *m*SCOA Data Strings by approved registered users;
- Budget-related and in-year documents and schedules (A, B and C) by approved registered users; and
- Reconciliation of the valuation roll to the financial system (as per MFMA Circular No. 93).

Budget related documents and schedules must be uploaded by approved registered users using the GoMuni Upload Portal at: https://lguploadportal.treasury.gov.za/. The GoMuni Upload Portal does not have the same size restrictions encountered with lgdocuments@treasury.gov.za, but requires all documents to:

- Be in PDF format only; and
- 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.

Municipalities may ***only*** send electronic versions of the above documents to lgdocuments@treasury.gov.za when experiencing problems with the GoMuni Upload Portal.

lgdataqueries@treasury.gov.za – Database related and submission queries and the grant rollover templates.

lgdocuments@treasury.gov.za – Any additional information required by National Treasury that is not listed under the GoMuni Upload portal such as the manual COVID-19 reports.

Please do not submit the same document to ALL the platforms listed above as it means that our Database Team must register the same documents three times which slows down the process. ***Any document/ queries that are submitted to the incorrect portal/ mailbox will be deleted and not processed***.

10.4 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.

10.5 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

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
06 December 2021

NATIONAL TREASURY

MFMA Circular No. 115

Municipal Finance Management Act No. 56 of 2003

Municipal Budget Circular for the 2022/23 MTREF

CONTENTS

Introduction

This budget circular is a follow-up to MFMA Circular No. 112 that was issued on 06 December 2021. It aims to provide further guidance to municipalities with the preparation of their 2022/23 Medium Term Revenue and Expenditure Framework (MTREF) budgets and should be read together with the budget circulars that have been issued previously.

The grant allocations as per the 2022 Budget Review and the 2022 Division of Revenue Bill are also key focus areas in this circular. Municipalities are reminded to refer to the annual budget circulars of the previous years for guidance in areas of the budget preparation that is not covered in this circular.

1. The South African economy and inflation targets

The world economy is expected to grow by 4.4 per cent this year. This is lower than the 4.9 per cent that was anticipated when tabling the medium-term budget policy statement (MTBPS). The Omicron variant of the coronavirus caused many countries to impose restrictions to manage its spread. In addition, continued imbalances in global value chains have limited the pace of the world's economic recovery.

The South African economy has not been shielded from these global developments. National Treasury has revised South Africa's economic growth estimate for 2021 to 4.8 per cent, from 5.1 per cent at the time of the MTBPS.

This revision reflects a combination of the impact of changes in the global environment, along with South Africa's own unique challenges. Commodity prices, which have supported South Africa's economic recovery, slowed in the second half of 2021.

Also, violent unrest in July, and restrictions imposed to manage the third wave of COVID-19 further eroded the gains South Africa made in the first half of the year.

Industrial action in the manufacturing sector, and the re-emergence of loadshedding, also slowed the pace of the recovery.

Real Gross Domestic Product (GDP) growth of 2.1 per cent is projected for 2022. Over the next three years, GDP growth is expected to average 1.8 per cent.

Headline inflation is expected to remain between 3 to 6 per cent target range over the 2022/23 MTEF.

In summary, the tax revenue in 2021/22 was higher than projections and this was mainly due to commodity price rally. However, these are projected to be short term, and as such long-term spending commitments should not be made based on short term revenue benefits. There are measures in place to reduce expenditure to narrow the budget deficit.

The following macro-economic forecasts must be considered when preparing the 2022/23 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections, 2020 - 2025

Fiscal year	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Estimate		Forecast	
CPI Inflation	2.9%	4.5%	4.8%	4.4%	4.5%

Source: Budget Review 2022.
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 2022/23 budget process

2.1 Local government conditional grants allocations

Over the 2022 MTEF period, direct transfers to municipalities will grow above inflation, at an annual average rate of 7.9 per cent. Direct conditional grants grow at an annual average rate of 5.3 per cent over the MTEF, while the Local Government Equitable Share (LGES) grows faster, at an annual average rate of 10.3 per cent over the same period.

The higher than inflation growth of allocations to local government is due to additional allocations over the medium term as follows:

- 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 2022 MTEF period. R28.9 billion is added to the LGES over the MTEF to increase coverage of the provision of free basic services; and
- An amount of R1.7 billion over the MTEF is added to the Neighbourhood Development Partnership Grant to fund the continuation of the upscaling of city-led public employment programmes, as part of the Presidential Youth Employment Intervention; and an amount of R347 million over the first two years of the MTEF period is allocated to fund the introduction of the Municipal Disaster Recovery Grant. More detail is provided below.

The Division of Revenue Bill was published on 23 February 2022, following the tabling of the Budget in Parliament. The Bill specifies all local government transfers and municipalities must reconcile their budgets to the numbers published herein.

In terms of the outer year allocations (2023/24 and 2024/25), it is proposed that municipalities conservatively limit funding allocations to the indicative numbers as presented in the 2022 Division of Revenue Act. The DoRB is available at:
http://www.treasury.gov.za/documents/national%20budget/2022/dor.aspx

2.2 Division of Revenue Bill, 2022: changes to local government allocations

Budget Facility for Infrastructure (BFI) Funding – There are reductions of R754 million in 2022/23 and R105 million in 2023/24; and an increase of R621 million in 2024/25 in the *Public Transport Network Grant* to align to the revised implementation plan and cash flow projections for the City of Cape Town's MyCiTi public transport network.

Neighbourhood Development Partnership Grant – R1.7 billion is added to the direct component of the *Neighbourhood Development Partnership Grant* for the eight metropolitan municipalities to fund the continuation of the upscaling of city-led public employment programmes that contribute to informal settlement upgrading, public space and asset maintenance, development and management, greening and cleaning, food security, innovative service delivery, local knowledge and information sharing and management, community safety, environmental services and management and community tourism. This is part of the Presidential Youth Employment Intervention and is a continuation of government's response to job losses due to COVID-19, introduced as part of the stimulus package to respond to the impact of the COVID-19 pandemic during 2020.

Regional Bulk Infrastructure Grant – R1 billion is added to the *Regional Bulk Infrastructure Grant,* funded from the BFI, to fund the continuation of the implementation of the Potable Water Security and Remedial Works project in George Local Municipality.

Integrated National Electrification Programme (Eskom) Grant – R50 million is reprioritised from the *Integrated National Electrification Programme (Eskom) Grant* to finance the operational requirements of the Independent Power Producer Office in 2022/23.

Energy Efficiency and Demand Side Management Grant – R8 million in 2022/23 and 2023/24, respectively is reprioritised from the *Energy Efficiency and Demand-Side Management Grant* to finance the operational requirements within the vote of the Department of Mineral Resources and Energy.

R10 million is shifted from the sport component of the ***Municipal Infrastructure Grant*** **(MIG)** to the ***Integrated Urban Development Grant*** **(IUDG)** in 2022/23, to fund a sport project in Polokwane Local Municipality.

The ***Municipal Disaster Recovery Grant*** is introduced to fund infrastructure recovery in municipalities in KwaZulu-Natal. This grant is allocated R347 million between 2022/23 and 2024/25.

2.3 Changes to gazetted frameworks and allocations

Infrastructure Skills Development Grant (ISDG) – The grant framework for the infrastructure skills development grant is amended to include a condition that municipalities must have a capacitated Project Management Units with qualified people to act as supervisors in terms of the relevant statutory council requirements.

Municipal Infrastructure Grant (MIG) – Over the 2022 MTEF, the Department of Cooperative Governance (DCoG) will introduce an indirect component to the MIG. This is to improve efficiency in grant expenditure to develop more and better-quality infrastructure. The conversion will be done in-year. The criteria as determined by DCoG includes indicators related to expenditure and reliability of infrastructure.

Municipal Systems Improvement Grant – Over the MTEF, a portion of the grant will be utilised to continue to support institutionalisation of the district development model.

Municipal Disaster Relief Grant – The name of the *Municipal Disaster Relief Grant* is changed to the *Municipal Disaster Response Grant*. The objective of the grant remains the same and the change aligns to existing National Disaster Management Centre (NDMC) processes in responding to disasters that have occurred.

Local Government Financial Management (FMG) Grant – Over the 2022 MTEF, the grant framework for the FMG will make provision for the preparation of asset registers.

3. IDP Consultation Process Post 2021 Local Government Elections

Municipalities are advised to refer to the guidance (refer to the email sent by the Department of Cooperative Governance and Traditional Affairs (CoGTA) to all municipalities on 20 October 2021) provided through the joint South African Local Government Association (SALGA)/ Department of Cooperative Governance (DCoG) and National Treasury (NT) Joint Circular No.1 on the transitional measures in relation to the integrated development plan (IDP) consultation process. This circular indicates that the previous municipal councils had an obligation to ensure that the legislative stipulations were complied with. Therefore, they were expected to continue the process of the development of the IDP starting with the development and adoption of the process plans as provided for in section 28 of the Municipal Systems Act,

2000. Municipalities should then implement the adopted budget process plan and conduct the public engagements as per dates they have indicated in the process plan.

4. Municipalities unable to pass the annual budget after 1 July

The provincial executive council must urgently request the Mayor to submit a report outlining detailed reasons and or circumstances that led to failure to approve the annual budget by the 1 July.

The provincial executive council must intervene in terms of section 139(4) of the Constitution and take appropriate steps by issuing a directive to the municipal council to approve a budget and any revenue raising measures necessary to give effect to the budget within a reasonable period.

Section 26(4) and (5) of the MFMA provides for how the expenses can be met pending the approval of a budget through a directive. Provincial Treasuries should establish clear internal processes for reviewing and recommending the approval of withdrawals by their MEC for Finance (templates can be obtained from National Treasury).

The provincial executive council must upon issuing of a directive to the Municipal Council conduct an assessment of the budget tabled by the Mayor against the norms and standards, approved budget process plan, and the outcome of public participation processes.

In the event the Municipal Council fails to approve a budget due to walk out or individual misconduct by a majority of councillors, the Speaker must immediately investigate the conduct of those identified councillors in terms of the Code of Conduct for councillors as provided for in the Municipal Systems Act, 2000.

If in terms of the assessment by the provincial executive council of the tabled budget, it is found that there are no justifiable grounds for not approving the budget, the former must submit/ present the outcome of the assessment to the Municipal Council with a directive to consider the assessment and adopt the budget. If the assessment of the provincial executive council of the tabled budget finds that it does not adhere to the required norms and standards, the directive from the provincial executive council should instruct the council to first amend the budget to remedy this before adopting the budget.

The provincial executive council must, if necessary give the municipal council a further 14 days to approve a tabled budget that complies with norms and standards and incorporates the outcome of public participation, failing which the provincial executive council must consider dissolution of municipal council, approval of a temporary budget and appointment of an administrator as a last resort.

5. Municipal Standard Chart of Accounts (*m*SCOA)

5.1 Release of Version 6.6.1 of the Chart

Version 6.6.1 of the chart will be released through a patch to accommodate the following changes/conditions published in the 2022 Division of Revenue (DoR) Bill:

- The capital leg of the Local Government Financial Management (FMG) grant that was retired in chart version 6.2 of the chart. As per the conditions published in the 2022 DoR Bill, the grant may be used, inter alia, for the acquisition, upgrade and maintenance of financial management systems to produce multi-year budgets, in-year reports, service delivery and budget implementation plans, annual financial statements, annual reports and automated financial management practices including the *m*SCOA;

- Allocation-in-kind for the MIG grant to make provision for the indirect grant portion of the grant; and
- The name change from Municipal Disaster relief grant to Municipal Disaster Response Grant. Municipalities should take note of this change when they report on COVID-19 in terms of *m*SCOA Circular No. 9.

Version 6.6.1 of the chart will be effective from 01 July 2022 and must be used to compile the 2022/23 MTREF. The patch is available on the link below: http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx

5.2 Funding Depreciation

From the analysis of the *m*SCOA data strings it is evident that a number of municipalities are allocating non-funding as the funding source in the fund segment for depreciation charges. Depreciation charges must be funded from operational funds such as service charges for electricity if assets are utilised for electricity purposes, service charges water for water management purposes, waste and wastewater management in the same manner and property rates for services like roads that is primarily funded from property rates.

When deprecation is funded, it will assist the municipalities to accumulate sufficient surpluses that must be transferred to cash backed reserves. Depreciation is the method to provide for the replacement of the assets. If depreciation remains a journal without the funds being ring-fenced, municipalities will not be in a financial position to fund future infrastructure assets.

5.3 Application of Costing

The mapping for Table A2 on Financial Performance of the regulated Schedule A was updated to include the costing segment. The costing segment in *m*SCOA provides for the recording of the full cost for the four core municipal functions, namely: electricity, water, wastewater and waste management. It also allows for the charge out of costs between functions and projects. Costing: recoveries was previously recorded as 'revenue: default' in the item segment. However, as the charge out of cost does not present revenue, municipalities must use 'expenditure: default' in the item segment to record the debit and credit of all costing transactions where the charges increase cost and the recoveries decrease the cost per function or project.

Municipalities are also reminded that one of the validation rules that are applied when *m*SCOA data strings are submitted is that costing transactions for charges and recoveries must balance to zero.

5.4 Change in calculation of consumer deposits

The addition of consumer deposits as a funding source in version 6.6 of the *m*SCOA chart impacts on the population of Tables SA30 and A7 in the Schedule A. The calculation will be changed in the 6.6 chart version to the following:

CASH FLOWS FROM FINANCING ACTIVITIES	
Increase in consumer deposits	Consumer deposits FD001001001014 linked to IA001 Deposits
(Decrease) in consumer deposits	Consumer deposit IL001002 :Withdrawals

All payments received in respect of consumer deposits will be picked up utilising the consumer deposit fund source linked to the bank: deposits posting level. The payment of consumer deposits will be picked up from item liability: consumer deposits: withdrawals posting levels, which represent the outflow of cash.

5.5 NERSA reporting

Municipalities are reminded to complete the D-Forms that the National Energy Regulator of South Africa (NERSA) requires. The National Treasury is currently looking into ways of how the *m*SCOA data strings can be used to populate the NERSA reports and will provide guidance in this regard during 2022.

5.6 Restructuring of the Long-Term Component of Trade Payables

In an effort to assist municipalities to get to a funded budget position, the National Treasury have requested municipalities to negotiate with their major trade creditors like Eskom, Water Boards and the Department of Water Affairs to restructure their outstanding trade creditors. Where the debt owed by a municipality was restructured, in terms of a debt repayment agreement, and the repayment period exceeds a period of 12 months, the debt will remain under *current liabilities trade payables* as per the version 6.6 of the *m*SCOA chart.

The restructuring of debt in the Statement of Financial Position to include the non-current portion through the reclassification of the debt to a *non-current liability of trade payables* under non-current liabilities has a major impact on the working capital requirement disclosure in the funding compliance assessment on Table A8 of the Schedule A and on the entire funding methodology of the National Treasury. The restructuring of debt also affects a number of liquidity measurement ratios such as the Current Ratio, Liquidity Ratio and Creditors to Cash Ratio.

Detailed analysis and careful consideration of the appropriate accounting treatment to ensure that future adjustments to the chart will not compromise the funding methodology of the National Treasury is required. Therefore, any changes required to the *m*SCOA Chart to accommodate the restructuring of the long-term component of trade payables will only be considered for inclusion in version 6.7 of the chart.

The restructuring of the non-current portion should not only impact on the Statement of Financial Position as it requires that municipalities include additional cost in the operation budget for the repayment of the non-current liability, including any finance charges that may be payable as per the repayment agreement. The restructuring of the trade payables without the inclusion of the interest and redemption payments of the non-current liability on the cash flow statement will significantly misstate the funding position of the municipality.

The Budget Funding Assessment Tool used by the National and provincial treasuries to assess the funding position of municipal budgets has been enhanced to include a *Restructuring of Trade Payables Module* to assess the full impact of the restructuring on both the Statement of Financial Position and the impact of interest charges and repayment of the non-current liability on the cash flow position of the municipality. Municipalities that have restructured their trade payables should:

- Indicate this to the respective National and provincial treasuries when submitting their tabled and adopted 2022/23 MTREF budget; and
- Submit the approved agreement with the supplier to the respective National and provincial treasuries with their budget documentation.

The necessary restructuring will then be taken into account in the funding assessment by the respective National and provincial treasuries prior to determining the funding position of the municipality.

5.7 *m*SCOA eLearning

A web-based eLearning course on *m*SCOA will available on the National School of Government (NSG) website from April 2022. This is a self-paced course aimed at all government and municipal officials, especially new employees and interns to on-board them on *m*SCOA.

The course is structured as follows:

Module 1 – The fundamentals of mSCOA (for financial and non-financial officials)
- An overview of the Local Government Budget and Financial Management Reform Agenda and *m*SCOA Legislative Framework;
- *m*SCOA implementation oversight (including the role of internal audit, risk management and councilors); and
- Understanding the *m*SCOA segments.

Module 2 – System and reporting requirements (for financial and non-financial officials)
- An overview of the reporting requirements in a *m*SCOA environment;
- Key business processes that underpins *m*SCOA;
- Minimum system specifications required to comply with the *m*SCOA Regulations;
- Submission of documents and data strings to the National Treasury (i.e. registration process and upload process); and
- Period Control and how to transact and report in period 13, 14 and 15.

Module 3 – Budgeting and transacting on the mSCOA chart (for financial officials)
An understanding of accounting principles and GRAP is required to complete this module.

Municipalities are reminded to budget for the course in their 2022/23 MTREF. For further information, contact the NSG on their website link: https://www.thensg.gov.za.

6. The revenue budget

Similar to the rest of government, municipalities face a difficult fiscal environment. The weak economic growth has put pressure 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.

Municipalities must ensure that they render basic services, maintain their assets and clean environment. Furthermore, there must be continuous communication with the community and other stakeholders to improve the municipality's reputation. This will assist in attracting investment in the local economy which may result in reduced unemployment. Some municipalities are experiencing serious liquidity challenges. Therefore, the new leadership is advised to:

- Decisively address unfunded budgets by reducing non-priority spending and improving revenue management processes to enable collection; and
- Address service delivery failures by ensuring adequate maintenance, upgrading and renewal of existing assets to enable reliable service delivery.

It should be noted that it is easier for consumers to pay for services if they are reliable and when the environment is well maintained.

National Treasury encourages municipalities to maintain tari [illegible] ases at levels that reflect an appropriate balance between the affordability to poorer h [illegible] olds and other customers while ensuring the financial sustainability of the municipality. [illegible] onsumer Price Index (CPI) inflation is forecasted to be within the lower limit of the 3 to 6 [illegible] ent target band; therefore, municipalities are required to ***justify all increases in exc*** [illegible] ***f the projected inflation target for 2022/23*** in their budget narratives and pay car [illegible] tention to tariff increases across all consumer groups. In addition, municipalities shoulc [illegible] le a detail of their revenue growth assumptions for the different service charges in the bu [illegible] arrative.

6.1 Maximising the revenue generation of the municipal [illegible] ue base

Reference is made to MFMA Circulars No. 93, paragraph 3.1 [illegible] o. 98, paragraph 4.1. The emphasis is on municipalities to comply with Section 18 of t [illegible] MA and ensure that they fund their 2022/23 MTREF budgets from realistically anticip [illegible] evenues to be collected. Municipalities are cautioned against assuming collection [illegible] that are unrealistic and unattainable as this is a fundamental reason for municipa [illegible] ot attaining their desired collection rates.

It is essential that municipalities reconcile their most recent [illegible] on roll data to that of the billing system to ensure that revenue anticipated from [illegible] erty rates are accurate. Municipalities should undertake this exercise as a routine pra [illegible] during the budget process so that supplementary adjustments to the valuation roll ar [illegible] up to date. The list of exceptions derived from this reconciliation will indicate w [illegible] the municipality may be compromising its revenue generation in respect of property r [illegible] A further test would be to reconcile this information with the Deeds Office registry. [illegible] cordance with the MFMA Circular No. 93, municipalities are once more requested to s [illegible] their reconciliation of the valuation roll to the billing system to the National Treasury on a [illegible] erly basis.

The above information must be uploaded by the municipalit [illegible] proved registered user(s) using the GoMuni Upload Portal at: https://lguploadportal.trea [illegible] ov.za/. If the municipality experience any challenge uploading the information a reques [illegible] n alternative arrangement may be emailed to linda.kruger@treasury.gov.za.

6.2 Setting cost-reflective tariffs

Reference is made to MFMA Circular No. 98, paragraph 4.2 [illegible] e setting of cost-reflective tariffs is a requirement of Section 74(2) of the Municipal Syste [illegible] t, 2000 which is meant to ensure that municipalities set tariffs that enable them to reco [illegible] e full cost of rendering the service. This forms the basis of compiling a credible budget [illegible] redible budget is one that ensures the funding of all approved items and is anchore [illegible] ound, timely and reliable information on expenditure and service delivery (Financial [illegible] iscal Commission (FFC), 2011). Credible budgets are critical for local government t [illegible] its mandate and ensure financial sustainability.

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

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

Municipalities are encouraged to utilise the tariff setting tool referenced in MFMA Circular No. 98, item 4.2. This tool will assist in setting tariffs that are cost-reflective and would enable a municipality to recover costs to fulfil its mandate. The National Treasury Municipal Costing Guide is available on the link below on the National Treasury website.

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6.4 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.

6.5 Smart Prepaid Meters Solution

The Inter-Ministerial Task Team (IMTT) of the 5th administration appointed a panel to investigate the electricity function to better understand what is causing the non-payment to Eskom. Cabinet subsequently endorsed the panel's recommendation that a smart prepaid solution for all municipalities must be explored. Municipalities are advised that the National Treasury, through the Office of the Chief Procurement Officer (OCPO), will soon facilitate a transversal contract to standardise prepaid smart meter solutions for electricity that align to minimum and critical technical specifications for local government.

If your municipality or entity is currently in the process of procuring any smart meter solution or is planning to, you are cautioned:

- Against proceeding prior to the OCPO having issued and awarded the transversal prepaid smart meter Terms of Reference (ToR); and
- That, with immediate effect, you must obtain the National Treasury's input prior to proceeding with any current procurement or proposed procurement for any smart meter solution or similar system solution. This is to prevent unnecessary and wasteful expenditure on such solutions. Any request for National Treasury's input on the current or planned procurement of any smart meter solution or similar system solution or component thereof, must be directed to the National Treasury for the attention of the Local Government Budget Analysis Unit (Mr. Sadesh Ramjathan) Sadesh.Ramjathan@treasury.gov.za.

Your assistance in proactively ensuring that the municipality and/ or its entities are not adversely affected by these processes will be appreciated.

6.6 Critical Notice Affecting STS Meters

Municipalities are alerted that there is a pending business risk to the prepayment metering industry that requires urgency of action. The token identifiers (TID) used to identify each credit token will run out of available numbers in November 2024, at which point all STS meters will stop accepting credit tokens. The remedy is to visit each meter and enter a special set of key change tokens in order to reset the meter memory. Municipalities are advised that the National Treasury, through the Office of the Chief Procurement Officer (OCPO), will soon facilitate a transversal contract for the provision of auditing, re-calibration and re-configuration services for standard transfer specification compliant prepayment meters that align to minimum and critical technical specifications for local government.

If your municipality or entity is currently in the process of procuring for a solution or is planning to, you are cautioned:

- Against proceeding prior to the OCPO having issued and awarded the transversal contract for the provision of auditing, re-calibration and re-configuration services for standard transfer specification compliant prepayment meters Terms of Reference (ToR); and
- That, with immediate effect, you must obtain the National Treasury's input prior to proceeding with any current procurement or proposed procurement for this purpose or any related solution or similar. This is to prevent unnecessary and wasteful expenditure on such solutions. Any request for National Treasury's input on the current or planned procurement of any related solution or similar or component thereof, must be directed to the National Treasury for the attention of the Local Government Budget Analysis Unit (Mr. Sadesh Ramjathan) Sadesh.Ramjathan@treasury.gov.za.

In this regard, municipalities will have two options to choose from:

- Firstly, to pursue the route of auditing, re-calibrating and re-configuring services for standard transfer specification compliant prepayment meters; and
- Secondly, to replace the old meter with a new smart prepaid meter.

nunicipality will have to budget accordingly as no additional funding will ıe national fiscus.

roactively ensuring that the municipality and/ or its entities are not hese processes will be appreciated.

ınd credibility of revenue related information in the Budget

: and Reporting Regulations (MBRR) regulates the minimum level of from municipalities when compiling, implementing, monitoring, and ıality's financial management situation. Failure to include the minimum ıampers the municipal council, the public and stakeholders' ability to ɔns and engage on the matter. It also limits research, studies, and ken for local, provincial, and national purposes.

/ would like to take this opportunity to caution municipalities that the ıinimum level of information municipalities must include as part of their ɔns.

ɘasuries will place increased attention and focus on the adequacy of ɪions. The National Treasury regards this non-compliance to include the mation as serious and if persistent will consider applying the available ling recourse in terms of section 216(2) of the Constitution. In this sury will particularly focus on the completeness of asset management well as the statistical information required in the A, B and C schedules REF.

'iff increases

:egulator of South Africa (NERSA) is responsible for price determination electricity. Bulk electricity costs are consistently much higher than as high as 17.8 per cent in the 2021/22 municipal financial year. ɘased funding means that over the period ahead they are applying for 'eases. In their Multi-Year Price Determination (MYPD 5) application 'oval for municipal bulk tariff increases of 20.5 per cent in 2022/23, 15 ıd 10 per cent in 2024/25. NERSA rejected this revenue application at 2021 and in October 2021 ESKOM filed an application in the High Court :ision. Following the deliberations, NERSA has approved a 9.6 per cent ·m starting from April 2022 and this figure accounts for a 3.49 per cent

ncial Strategies

upporting municipalities to develop and implement long-term financial ;. This reform seeks to develop more sustainable, and integrated ıent programmes over the longer term, informed by strategic plans, and financed in the most effective and efficient manner.

Although some municipalities have long-term financial models (LTFM), they are not always integrated with municipal plans, or based on actual cash flow analysis and investment programmes, or able to consider alternative financial scenarios and outcomes in relation to the ability to borrow and the structuring of market transactions.

Municipalities need to develop LTFM that support decisions on investment selection and assesses the financial impact of policy choices, by forecasting future financial performance and the impact of infrastructure projects on borrowing capacity. The LTFM needs to inform the municipality's long-term financial strategy, which must articulate a sustainable, efficient develop UIFW reduction plans that is approved by the municipal council, with the aim being for municipalities to utilize their 2018/19 UIFW figures as contained in their audited annual financial statements for that financial year as a baseline to develop the reduction plans. Whilst progress has been slow in terms of municipalities developing and submitting these plans to the National Treasury, some municipalities has made strides in this regard.

National Treasury would like again to encourage municipalities to develop the UIFW reduction plans and have it approved by the municipal councils through a council resolution for submission to the National Treasury to the MFMA helpdesk at mfma@treasury.gov.za for the attention of Mr. Wayne McComans on wayne.mccomans@treasury.gov.za. Municipalities are also advised to report progress against these UIFW reduction plans as part of their monthly

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budgeting for employee related costs for the 2022/23 MTREF. In terms of the agreement, all employees covered by this agreement shall receive with effect from 01 July 2022 and 01 July 2023 an increase based on the projected average CPI percentages for 2022 and 2023. The forecasts of the Reserve Bank, in terms of the January 2022 and January 2023, shall be used to determine the projected average CPI. Municipalities are encouraged to perform an annual head count and payroll verification process by undertaking a once-a-year manual salary disbursement, in order to root out ghost employees.

7.2 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. Any overpayment to councilors contrary to the upper limits as published by the Minister of Cooperative Governance and Traditional Affairs will be irregular expenditure in terms of Section 167 of the MFMA and must be recovered from the councilor(s) concerned.

7.3 Equitable Share allocation

As highlighted in Minister Enoch Godongwana's 2022 Budget Speech, municipalities must be mindful that the Equitable Share is meant to fund basic municipal services to the indigent. Municipalities must ensure that monies are used for the purpose they were allocated for.

8. Transfers to Municipalities

The circular reiterates the requirements of the rollover and unspent conditional grants process in line with conditions outlined in the annual Division of Revenue Act. Municipalities are required to request for a rollover approval against any unspent conditional grants that were allocated through the annual Division of Revenue Act, therefore this section provides guidance to municipalities with regard to the preparation for the 2021/22 unspent conditional grants and roll-over process and should be referenced against previous annual budget circulars.

8.1 Criteria for the rollover of conditional grant funds

In terms of Section 21 of the Division of Revenue Act, 2021 (Act No.9 of 2021) (DoRA) read in conjunction with the Division of Revenue Amendment Act, 2021 (Act No. 17 of 2021) (DoRAA), the Act requires that any conditional allocation or a portion thereof that is not spent at the end of the 2021/22 financial year reverts to the National Revenue Fund (NRF), unless the rollover of the allocation is approved in terms of subsection (2). Furthermore, the receiving officer, provincial treasury and transferring national 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 21(2) of the 2021 DoRA, municipalities must include the following information with their submission to National Treasury:

- A formal letter, signed by the accounting officer addressed to the National Treasury requesting the rollover of unspent conditional grants in terms of section 21(2) of the 2021 DoRA;
- 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;
- 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 2022; or
  b) Proof of project tender and tender submissions published and finalised before 31 March 2022 with the appointment of contractor or service provider for delivery of the service before 30 June 2022 in cases where additional funding was allocated during the course of the final year of the project. Further, municipalities must note the letters issued by National Treasury dated 25 February and 03 March 2022 respectively regarding the Preferential Procurement Regulation, 2017;
  c) Incorporation of the Appropriation Statement; and

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).

- A progress report (also in percentages) on the status of each project's implementation that includes an attached legible implementation plan);
- The value of the committed project funding, and the conditional allocation from the funding source;
- Reasons why the grants were not fully spent during the year of original allocation per the DoRA;
- Rollover of rollovers will not be considered therefore municipalities must not include previous year's unspent conditional grants as rollover request;
- An indication of the time-period within which the funds are to be spent if the roll-over is approved; and
- 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 2022, the application will not be considered.

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:

- Compliance with the in-year reporting requirements in terms of sections 71 and 72 of the MFMA and section 12 of the 2021 DoRA, including the municipal manager and Chief Financial Officer signing-off on the information sent to National Treasury;
- Submission of the pre-audited Annual Financial Statements to National Treasury by 31 August 2022;
- Accurate disclosure of grant performance in the 2021/22 pre-audited Annual Financial Statements, (i.e. correct disclosure of grant receipts and spending in the notes to the AFS);
- Despite the fact that 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 2021/22 pre-audited Annual Financial Statements in order to verify grant expenditure; and
- Cash available in the bank (net position including short-term investments) as at 30 June 2022 is equivalent to the amount that is unspent as at the end of the financial year. If the amount that is requested for roll-over is not entirely cash backed, such a roll-over 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 roll-over:

- The entire 2021/22 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 2021/22 allocation;
- Rollover request of the same grant for the third consecutive time;

8.3 Importance of section 16 of the Division of Revenue Act

The circular again reiterates the importance of compliance to section 16 of DoRA in relation to the allocation or transfer of funds by municipalities to other organs of state in order to implement projects on behalf of the municipalities.

Section 16 (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:

- The allocation
  - i) Is approved in the budget for the receiving p [illegible] artment or municipality; or
  - ii) If not already approved;
    - aa) the receiving officer notifies the Nati [illegible] y that the purpose of the allocation is not to artificially inflate th [illegible] estimates of the relevant municipality and indicates the reasons [illegible] ation; and
    - bb) the National Treasury approves the al [illegible]
- The allocation is for the payment for goods or se [illegible] ed in accordance with the procurement prescripts applicable to the relevant [illegible] municipality and, if it is an advance payment, paragraph (a) (ii) applies with t [illegible] changes.

Further, section 16 (4) states that the receiving officer [illegible] a copy of the agreement envisaged in subsection (3) to the transferring offic [illegible] National Treasury before payment is made.

This section requires municipalities to comply with sec [illegible] efore any DoRA allocated funds that are allocated or transferred to any organ of [illegible] e municipality should first seek approval from National Treasury. The allocation i [illegible] fers made to any organ of state in order to perform a function using conditional gra [illegible] through the DoRA.

Note that National Treasury considers the following [illegible] ing the request from the municipality for approval:

- If the municipality is benefitting and utilising fron [illegible] r cent from capital grants that may be utilized for Project Management Uni [illegible] terms of the capital grant framework (i.e. MIG and the Integrated Urban De [illegible] rant (IUDG) and three per cent for the Urban Settlements Development Grar [illegible] unicipalities are allowed to utilise a certain per cent of the grant for PMU or [illegible] port in order to implement capital projects. Therefore, if municipalities are [illegible] m this initiative the PMU should be capacitated enough to implement capita [illegible]
- Municipalities that are benefiting from the adc [illegible] support from Municipal Infrastructure Support Agent (MISA) will not be g [illegible] val because MISA would assist with providing support and develop t [illegible] acity towards sustained accelerated municipal capacity and service deliv [illegible] plies that the municipality would be capacitated and be in a better position t [illegible] capital projects; and
- If the request does not comply to the grant cor [illegible] ework and if the transfer artificially inflates the expenditure estimates.

The following information must be submitted to Nation [illegible] efore approval is granted to municipalities to transfer funds to other organs of the [illegible]

- In consultation with the relevant transferring of [illegible] alities must submit their request to National Treasury for approval;
- Provide the time frames regarding the duration of this arrangement between the municipality and the organ of the state;
- Provide the Service Level Agreement (SLA) between the municipality and the organ of state in consultation with the relevant transferring officer;
- Provide the agreed payment schedule reflecting the disbursement of the funds;
- Must provide the reasons why such a decision has been taken by the municipality;
- 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
- Upon approval the municipality must submit the approved budget that includes the allocation.

Note that once the allocation or transfer has been approved the payment for goods or services must be procured in accordance with or in compliance to 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 transferring national 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 16, 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.

9. The Municipal Budget and Reporting Regulations

9.1 Schedule A - version to be used for the 2022/23 MTREF

National Treasury has released Version 6.6.1 of the Schedule A1 (the Excel Specimen) which is aligned to Version 6.6.1 of the *m*SCOA classification framework and must be used when compiling the 2022/23 MTREF budget.

All municipalities **must** prepare their 2022/23 MTREF budgets in their financial systems and produce the Schedule A1 directly from their financial system.

Municipalities must start early enough to capture their tabled budget (and later the adopted budget) in the budget module in the financial system and must ensure that they produce their Schedule A1 directly out of the budget module. **Manual capturing on A1 schedule version 6.6.1 is not allowed** in terms of the *m*SCOA Regulations.

National Treasury has protected the A1 schedule version 6.6 in order to ensure that the Schedule A1 generated directly from the financial system and not populated manually.

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 6.6.1. The revised MBRR Schedules for the 2022/23 MTREF and its linkages to the financial and non-financial data string are available on the link below:

http://mfma.treasury.gov.za/RegulationsandGazettes/Municipal%20Budget%20and%20Reporting%20Regulations/Pages/default.aspx

9.2 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	Matjatji.Mashoeshoe@treasury.gov.za
	Abigail Maila	012-395 6737	Abigail.Maila@Treasury.gov.za
Buffalo City	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
Free State	Sifiso Mabaso	012-315 5952	Sifiso.mabaso@treasury.gov.za
	Cethekile Moshane	012-315 5079	Cethekile.moshane@treasury.gov.za

Gauteng	Matjatji M... ...noe	012-31...	Matjatji.Mashoeshoe@treasury.gov.za
	Abigail M...	012-39...	Abigail.Maila@Treasury.gov.za
Johannesburg and Tshwane	Willem Vo...	012-31...	WillemCordes.Voigt@treasury.gov.za
Ekurhuleni	Kgomots...	012-31...	Kgomotso.Baloyi@treasury.gov.za
KwaZulu-Natal	Kgomots...	012-31...	Kgomotso.Baloyi@treasury.gov.za
	Kevin Bel...	012-31...	Kevin.Bell@treasury.gov.za
eThekwini	Sifiso Ma...	012-31...	Sifiso.mabaso@treasury.gov.za
Limpopo	Sifiso Ma...	012-31...	Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Mandla G...	012-31...	Mandla.Gilimani@treasury.gov.za
	Lesego L...		Lesego.Legasa@treasury.gov.za
Northern Cape	Mandla G...	012-31...	Mandla.Gilimani@treasury.gov.za
	Phumelel... ...ungu	012-31...	Phumelele.Gulukungu@treasury.gov.za
North West	Willem Vo...	012-31...	WillemCordes.Voigt@treasury.gov.za
	Makgabo ...	012-31...	Makgabo.Mabotja@treasury.gov.za
Western Cape	Willem Vo...	012-31...	WillemCordes.Voigt@treasury.gov.za
Cape Town	Kgomots...	012-31...	Kgomotso.Baloyi@treasury.gov.za
George	Mandla G...	012-31...	Mandla.Gilimani@treasury.gov.za
Technical issues with Excel formats	Sephiri Tl...	012-40...	lgdataqueries@treasury.gov.za

National and provincial treasu... ill analyse the ... the data string submissions.

9.3 Assessing the 2022/2... ...EF budget

National and provincial treas... ...ill assess the ... REF budgets to determine if it is complete, funded and compli... ...n the *m*SCOA... ...s. The *m*SCOA data strings for the tabled (TABB) and adopte... ...GB) budgets ... for this assessment.

> The **assessment period** of ... ...nicipal budge... ...e be from **01 April to 30 June 2022 for both the tabled ar... ...pted budget**... ...riod, the National and provincial treasuries will evaluate all mu... budgets for ... ...s and for being fully funded. Any adjustment that need to be m... ...ust be done I... ...rt of the municipal financial year on 1 July.

Importantly, in order to gene... ...adopted bu... data string, the budget must be locked on the financial syster... ...e 10th workin... each year. Therefore, once the ORGB data string has been... ...rated, errors ... ...B can only be corrected via an adjustments budget in Febru... each year. ... ...e design principles of *m*SCOA, municipalities are not allowe... ...pen the budg... ...stem for corrections after it has been locked. This means th... ...abled budget ... TABB) should in fact be verified and errors in the TABB sho... corrected in ... **before the adopted budget is locked on the financial system and the ORGB data string is generated**.

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.

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 funding plan and ensure that it is credible. The credible funding plan must be***

immediately adopted by the Municipal Council, and the changes to the budget m effected in the main adjustments budget to ensure compliance with Section 18 MFMA.

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

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

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

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

10. Submitting budget documentation and A1 schedules for 202 MTREF

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

- Section 22(b)(i) of the MFMA requires that, ***immediately*** after an annual bud tabled in a municipal council, it must be submitted to the National Treasury ar relevant provincial treasury in electronic formats. If the annual budget is tab council on **31 March 2022**, the final date of submission of the electronic b documents and corresponding *m*SCOA data strings is **Friday, 01 April 2022**; and
- Section 24(3) of the MFMA, read together with regulation 20(1) of the MBRR, re that the approved annual budget must be submitted to both National Treasury ar relevant provincial treasury within ten working days after the council has approv annual budget. However, given that municipalities are generating the annual bu directly from the financial system as required by the *m*SCOA Regulations and th budgets must be verified before it is locked on the financial system and trans against, municipalities must submit the approved budget to the National Treasu the relevant provincial treasury in electronic formats ***immediately*** after approval by the municipal council. Therefore, if the annual budget is tabled to council **on 31 May 2022**, the final date of submission of the electronic budget documents and corresponding *m*SCOA data strings is **Wednesday, 01 June 2022.**

Since the 2020/21 MTREF, municipalities are no longer required 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. Electronic copies must be submitted in pdf format to the GoMuni Upload portal.

Revenue, Expenditure, Gains and Losses, Assets, Liabilities and Net Assets;

2. All secondary cost data strings may only be linked to Item: Expenditure: Default. All costing transactions must be linked to Item: Expenditure default as it refers to the reallocation of cost from one function to another or one operational project to another operational project. Where cost is capitalised the costing segment is not used;
3. Inventory for water must be linked to the Function: Water Management. Bulk purchases of Water must only be recorded against the Water management function; and
4. Opening balances must be linked to Project default and Fund: non funding. All opening balances that are not linked to Project default and Non funding will not be valid.

The new validation rules will come into effect from 01 July 2022.

.4 Pul [illegible]

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Inte [illegible]
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Ser [illegible] ꞁn Plans;
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ınicipal [illegible] Treasury prior to 2022 will be available on the MA w [illegible] MFMP Share Point Documents option on Muni/ [illegible]

Muni/ [illegible] ving link: https:/lg.treasury.gov.za

5 Cor [illegible] **National Treasury**

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Private Bag X115, Pretoria 0001

ıe 012 315 5009

012 395 6553

site http://www.treasury.gov.za/default.aspx

Hatti [illegible]
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March [illegible]

CHRIS HANI
DISTRICT MUNICIPALITY
SUSTAINING GROWTH THROUGH OUR PEOPLE

BUDGET IMPLEMENTATION AND MONITORING

POLICY

[illegible]

"budget-related Policy" means a policy of a municipality affecting or affected by the annual budget of the municipality, including-

(a) the tariffs policy, which the municipality must adopt in terms of section 74 of the Municipal Systems Act; or

(b) the credit control and debt collection policy, which the municipality must adopt in terms of section 96 of the Municipal Systems Act;

"budget transfer" means transfer of funding within a function / vote.

"budget Year" means the financial year of the municipality for which an annual budget is to be approved in

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MFMA;

"councillor"

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been condoned in terms of that Act;

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

(d) expenditure incurred by a municipality of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but **<u>excludes expenditure</u>** by a municipality which falls within the definition of "unauthorised expenditure";

:stment" – means -

) the placing on deposit of funds with a

) the acquisition of monetary assets w

) with the primary aim of preserving thc

·", means a person who provides debt fina

:ommunity" has the meaning assigned

ipal Structures Act" means the Local G
. 117 of 1998);

ipal Systems Act" means the Local G
. 32 of 2000);

erm debt" means debt repayable over a p

tive mayor" means the councillor elected
; of section 55 of the Municipal Structures

): Mayoral Committee established in terr
·es Act;

means the Municipal Budget and Reportin
IFMA (Act No. 56 of 2003);

Municipal Finance Management Act, 200:

ipal council" or "council" means the coun
lunicipal Structures Act;

ipality"-
en referred to as a corporate body, mean
: Municipal Systems Act; or
en referred to as a geographic area, mea
: Local Government: Municipal Demarcatic

"municipal service" has the meaning ass to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

"municipal tariff" means a tariff for servic ich a municipality may set for the provision of a service to the local community, and incl a surcharge on such tariff;

"National Treasury" means the National ury established by section 5 of the Public Finance Management Act;

"official", means-

(a) an employee of a municipality.

(b) a person seconded to a municipa work as a member of the staff of the municipality or

(c) a person contracted by a municip o work as a member of the staff of the municipality otherwise than as an em e;

"overspending"-

(a) means causing the operational or l expenditure incurred by the municipality during a financial year to exceed th amount appropriated in that year's budget for its operational or capital expenditu the case may be;

(b) in relation to a vote, means causing e iture under the vote to exceed the budgeted amount for that vote; or

(c) in relation to expenditure under secti of the MFMA, means causing expenditure under that section to exceed the limits ed in subsection (5) of this section;

"past financial year" means the financial y eceding the current year;

"quarter" means any of the following perioc financial year:

(a) 1 July to 30 September;

(b) 1 October to 31 December;

(c) 1 January to 31 March; or

(d) 1 April to 30 June;

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2.2.2 Outlining the principles which the municipality will follow in preparing each medium-term revenue and expenditure framework budget;

2.2.3 Detail the roles and responsibilities of the Executive Mayor, Municipal Manager, Chief Financial Officer and other senior officials;

2.2.4 The compilation of both the operating and capital budget;

2.2.5 Budget monitoring and reporting;

2.2.6 Adjustment budget; (this aspect is covered in details in the Virement Policy);

2.2.7 Unforeseen and unavoidable expenditure;

2.2.8 Unauthorised expenditure approved by the Executive Mayor; and;

2.2.9 Ensure adherence to CHDM's IDP review and budget processes.

:GISLATIVE FRAMEWORK

1. The budget preparation process is guided by the enabling legislative imperatives that are derived from The Municipal Finance Management Act (MFMA) 56 of 2003, the Municipal Systems Act (MSA) 32 of 2000, Municipal Budget and
2. Reporting Regulations (MBRR) and all other applicable legislation, policies and circulars that make reference to the budget process.

3 Section 21 of the MFMA requires the Executive Mayor to table before council 10 months before the start of the budget year a time schedule outlining key deadlines inclusive of the annual budget process, the Integrated Development Plan as prescribed by section 34 of the MSA, the budget related policies, any amendments to the IDP or budget related policies, and the necessary consultative process which need to give effect to the above.

3. Furthermore, Section 7 of the MBRR requires that the municipal manager of a municipality must prepare, or take all reasonable steps to ensure the preparation of the budget-related policies of the municipality in accordance with the legislation applicable to those policies for tabling in the municipal council by the applicable deadline specified by the Executive Mayor in terms of section 21(1) (b) of the Act. Also, Section 7 (1) (m) specifies that this must include a policy related to budget implementation and monitoring specifically dealing with management and oversight.

4. In accordance with the regulation 7(1) of the MBRR, the responsibility of preparing and amending budget related policies rests with the Municipal Manager and can be sub-delegated to the Chief Financial Officer in accordance with the municipality's systems of delegation. The performance of this function may be delegated to subordinates; however, this however does not alleviate the responsibility of the Municipal Manager and Chief Financial Officer.

EY BUDGETING PRINCIPLES

1. The budget must be in the format prescribed by the regulations as contemplated by the MFMA and MBRR;
2. The budget must reflect the realistically expected revenues by major source for the budget year concerned taking into account actual collection levels;
3. The expenses reflected in the budget must be divided into the different votes of the municipality;
4. Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each vote in the approved budget.
5. Chris Hani District Municipality shall prepare three-year budget (medium term revenue and expenditure framework (MTREF)) and that be reviewed annually and approved by Council :
    - 5.1 the budget must also contain the information related to the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the prior year, and the forecasted revenues and expenses for the current year.
    - 5.2 the actual revenues and expenses for the previous financial year, and
    - 5.3 the estimated revenues and expenses for the current year.
6. The budget must be accompanied by all of the documents referred to in Section 17(3) of the MFMA.

7. For the purposes of Section 17(3) (l [illegible] he sa [illegible] benefits of each person referred to th [illegible] ed ind [illegible]
8. The MTREF budget must at all time [illegible] ramew [illegible] Integrated Development Plan

BUDGET PREPARATION PROCESS

5.1 Formulation of the budget

5.1.1 The Accounting Officer with the assi [illegible] of Fina [illegible] Director responsible for IDP shall c [illegible] cess [illegible] budget timetable for the municipality [illegible] ancia [illegible]

5.1.2 The executive mayor shall table th [illegible] an as [illegible] timetable to Council by 31 August ea [illegible] oval (1 [illegible] start of the next budget year).

5.1.3 IDP process plan as well as the budg [illegible] indica [illegible] for the review of the IDP as well as [illegible] the m [illegible] and expenditure framework budget a [illegible] f the a [illegible] target dates shall follow the prescrip [illegible] cipal F [illegible] Act as well as the guidelines set by N [illegible]

5.1.4 The Executive mayor shall convene a [illegible] op in [illegible] the mayoral committee and senior [illegible] ler to [illegible] priorities which will form the basis [illegible] on of [illegible] taking into account the financial and [illegible] es fac [illegible] The executive mayor shall table t [illegible] with [illegible] Council.

5.1.5 The Executive Mayor shall table the c [illegible] EF bu [illegible] March (90 days before the start of t [illegible] ear) to [illegible] resolutions and budget related polic [illegible] ariff s [illegible] debt collection, investmen [illegible] emen [illegible]

5.1.6. The Chief Financial Officer and s [illegible] unde [illegible] preparation of the budget.

5.1.7 The budget must be in the prescrib [illegible] ust be [illegible] and operating budget.

5.1.8 The budget must reflect the realistically expected revenues by major source for the budget year concerned.

5.1.9 The expenses reflected in the budget must be divided into operating and capital expenditure items.

5.1.10 The budget must also contain the information related to the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the prior year, and the estimated revenues and expenses for the current year.

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13. After considering all budget submissions, the council must give the **Executive Mayor an opportunity—**

    13.1 to respond to the submissions; and
    13.2 if necessary, to revise the budget and table amendments for consideration by the council.
    13.3 Within consideration of the approval of the Annual Budget and thirty (30) days before the start of the budget year the Executive Mayor must table the following documents in the Council in consideration of the annual budget approval.
        13.3.1 A report summarizing the local community's views on the annual budget;

13.3.2 Any comments on the annual budget received from National Treasury and Provincial Treasury

13.3.3 Any comments on the annual budget received from any organ of state, including any affected municipality; and

13.3.4 Any comments on the annual budget received from any other stakeholders.

13.3.5 The Municipal Manager must assist the Executive Mayor in the preparation of the documents referred to in sub-regulation (g) and 23 (2) of the Act.

3 Approval of the budget

Council shall consider the next medium term expenditure framework budget for approval not later than 31 May (30 days before the start of the budget year).
The council resolution must contain budget policies and performance measures to be adopted.
The council must consider the full implications, financial or otherwise, of the annual budget and supporting documentation before approving the annual budget.
Should the municipality fail to approve the budget before the start of the budget year, the executive mayor must inform the MEC for Finance that the budget has not been approved.

5. The budget tabled to Council for approval shall include the following supporting documents:

5.1 draft resolutions approving the budget, other taxes and tariffs for the financial year concerned;

5.2 measurable performance objectives for each budget vote, taking into account the municipality's IDP;

5.3 the projected cash flows for the financial year by revenue sources and expenditure votes;

5.4 any proposed amendments to the IDP;

5.5 any proposed amendments to the budget-related policies;

5.6 the cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other councillors, the accounting officer, the chief financial officer, and other senior managers;

5.7 particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as Non- Governmental Organisations, welfare institutions and so on; and

5.8 particulars of the municipality's investments.

5.4 Publication of the budget

5.4.1 The Chief Financial Officer must within 14 days submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury as well as post it on the municipal website.

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y arise in respect of such
ng budget (i.e. on service

7. Before approving the operating budget, the council shall consider:

7.1 the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans,

7.2 depreciation of fixed assets,

7.3 maintenance of fixed assets, and

7.4 any other ordinary operational expenses associated with any item on such capital budget.

7.5 Council shall approve … if it has been properly balanced and …

8. The capital expenditure sh…

8.1 Revenue or Accu…

8.1.1 If any … ıncing must be incluc… : cash for the exper…

8.1.2 If the … ılus there must be … certainty that it will b…

8.2 External loans

8.2.1 Exter… financing of an asset…

8.2.2 A cap… ın can only be incluc… d or it can be reaso…

8.2.3 The loan … exceed … asset. If this happens the … ɔeriod shall be declared as …

8.2.4 Interest paya… in the revenue budget;

8.2.5 Finance cha… or apportioned only betwee… relate.

Capital Replacement Reserve (…

1. Council shall establish a… ɔjects and the acquisition of assets. Su… ing sources of revenue:

1.1 unappropriated cas… pluses are not required for operational purposes;

1.2 interest on the investments of the CRR, appropriated in terms of the investments policy;

1.3 additional amounts appropriated as contributions in each annual or adjustments budget; and

1.4 Sale of land and profit or loss on the sale of assets.

2. Before any asset can be financed from the CRR the financing must be available within the reserve and available as cash as this fund must be cash backed;

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(c) The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.

(d) The operating budget shall reflect the impact of the capital component on:

Depreciation charges

Repairs and maintenance expenses

ayable on external borrowings

ɜrating expenses.

NDING OF CAPITAL AND OPERATING BUDGI

e budget may be financed only from:

ılistically expected revenues, based on current
ɜh-backed funds available from previous surpl
or other purposes; and
rowed funds in respect of the capital budget onl

ISPENT FUNDS / ROLL OVER OF BUDGET

ɜ appropriation of funds in an annual or adjus
ıt they are unspent by the end of the relevant b
capital expenditure.

Only unspent grant (if the conditions for su
ɜd capital budget may be rolled over to the next I

nditions of the grant fund shall be taken into acc

plication for roll over of funds shall be forwarde

y each year in relation to the previous financial y
ustment budget.

justments to the rolled over budget shall b
ıt in the new financial year after taking into acc
us financial year.
funding for projects funded from the Capital
r to the next budget year except in cases wher
(30 March each year) prior the end of that par

(g) No unspent operating budget shall be rolled over to the next budget year except for exceptional cases that requires approval by Chief Financial Officer and Municipal Manager.

11. BUDGET TRANSFERS AND VIREMENTS

(a) Budget transfers within the same vote shall be recommended by the Director and approved by the Chief Financial Officer (Accounting Officer)or such other senior delegated official in the Budget and Treasury Department.

if a material under-collection of revenues arises or is apparent.

(d) The Accounting Officer shall appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for or any areas of critical importance identified by Council in compliance with Item 2 of Section 10.

(e) The Council shall in such adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Executive Mayor.

(f) The Council should also authorise the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved by the Council.

(g) Only the Executive mayor shall table an adjustments budget.

(h) Adjustments budget shall be done at most, three times a year after the end of each quarter and be submitted to Council in the following months:

i. In August (Before 25 August) – to adjust funding rolled over from the previous financial year as well as to include additional funding that has become available from external sources,
ii. February – to take into account recommendations from the mid-year budget and performance report tabled to Council in January that affect the annual budget
iii. May – final budget adjustment to adjust current year's budget in cases where there is an indication that there will be rolling over of funding to the next financial year

(h) An adjustments budget must contain all of the following:
i. an explanation of how the adjustments affect the approved annual budget;

ii. appropriate motivations for material adjustments; and

iii. an explanation of the impact of any increased spending on the current and future annual budgets.

(i) **Any unappropriated surplus from previous financial years, even if fully cash-backed, shall not be used to balance any adjustments budget, but shall be appropriated to the municipality's capital replacement reserve.**

(j) Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.

(k) Unauthorised expenses may be authorised in an adjustments budget.
(l) In regard to unforeseen and unavoidable expenditure, the following apply:

i. the Executive mayor may authorise such expenses in an emergency or other exceptional circumstances;
ii. the municipality may not exceed 3 % of the approved annual budget in respect of such unforeseen and unavoidable expenses;
iii. these expenses must be reported by the Executive mayor to the next Council meeting;

iv. the expenses must be appropriated in an adjustments budget; and

v. Council must pass the adjustments budget within sixty days after the expenses were incurred.

13. BUDGET IMPLEMENTATION

13.1 Monitoring

13.1.1 The Accounting Officer with the as ce of the C Officer and other Senior Mana is respon implementation of the budget, and take reaso ensure that:

- funds are spent in accordance with the budget;

- expenses are reduced if expected revenues are l an projected

- revenues and expenses are properly monitored.

b) The Accounting officer must report in writing to the cil any imper in the annual revenue budget, as well as any impen verspendin the steps taken to prevent or rectify these problems

c) Directors / Head of Department (HOD) are respon or monitorin spending against budgeted amounts within thei ctorates an significant overspending/underspending promptly re d to the Acc

d) The Accounting officer with the assistance of hief financia prepare an adjustments budget when such budg necessary a the Executive mayor for consideration and tabling t ncil.

13.2 Reporting

13.2.1 Monthly budget statements

13.2.1.1 The accounting officer with the tance of the officer must, not later than te king days a each calendar month, submi he Executiv Provincial and National Trea report in format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date as required by section 71 of the MFMA.

This report must reflect the following:

i) actual revenues per source, compared with budgeted revenues;
ii) actual expenses per vote, compared with budgeted expenses;
iii) actual capital expenditure per vote, compared with budgeted expenses;
iv) actual borrowings, compared with the borrowings envisaged to fund the capital budget;

revenues and expenses set out in the service delivery and budget implementation plan.

12. NON-COMPLIANCE

12.1 Regulations 60-70 of the MBRR prescribes matters dealing with non-compliance by municipalities and municipal entities with time lines and deadlines concerning annual budgets, adjustments and in-year reports;

12.2 In an event that the District or a Municipal Entity fails to comply with the timelines and deadlines concerning annual budgets, adjustments budget or in-year reports, an application must be lodged in the format prescribed by the regulations.

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