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ANNEXURE 'D' MFMA CERCULAR 107

MEETING TO BE HELD ON

24 JUNE 2022



Municipal Budget Circular for the 2022/23 MTREF

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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:

<https://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 (mSCOA)

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 *mSCOA*;

- 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 *mSCOA* 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 *mSCOA* 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 depreciation 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 *mSCOA* 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 *mSCOA* 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 *mSCOA* 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 mSCOA 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 mSCOA 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 mSCOA 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 mSCOA eLearning

A web-based eLearning course on mSCOA will be 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 mSCOA.

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 mSCOA Legislative Framework;
- mSCOA implementation oversight (including the role of internal audit, risk management and councillors); and
- Understanding the mSCOA segments.

Module 2 – System and reporting requirements (for financial and non-financial officials)

- An overview of the reporting requirements in a mSCOA environment;
- Key business processes that underpin mSCOA;
- Minimum system specifications required to comply with the mSCOA 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 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 as a routine practice during the budget process so that supplementary adjustments to the valuation roll are kept up to date. 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 reconciliation of the valuation roll to the billing system to the National Treasury on a quarterly basis.

The above information must be uploaded by the municipality's approved registered user(s) using the GoMuni Upload Portal at: <https://uploadportal.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, 2000 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=0x0120004720FD2D0551AE409381D6CB3E122A08>

It is also imperative that every municipality is utilising the *mSCOA* 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 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.

For both options, the municipality will have to budget accordingly as no additional funding will be available through the national fiscus.

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

6.7 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.

6.8 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. Following the deliberations, NERSA has approved a 9.6 per cent tariff increase for Eskom starting from April 2022 and this figure accounts for a 3.49 per cent increase in 2022/23.

6.9 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.

6.10 Water management

Reference is made to the 2011, Chapter 8 of the Local Government Budget and Expenditure Review (LGBER) which emphasizes the importance of water management.

It has been observed recently in various platforms where municipalities engage with treasuries and the sector departments that there is no uniformity in reporting water and electricity losses. These are material items and need to be disclosed in planning, budgeting, reporting and in the annual report and Annual Financial Statements in uniform ways in order to track performance. In order to ensure consistency of reporting, the following information must be provided:

Accounting for water sold, non-revenue water and water losses:

- System input volume (kl)
- Water Billings (sum of accounts issued) – volume in kl and rand value
- Free basic water allowance (not included in billings) - volume in kl and rand value
- Physical water losses (estimated): volume in kl and rand value
- Water revenue collected (Rand value)

Accounting for electricity sold and electricity losses:

- Electricity purchased and generated (Electricity input) (kWh)
- Electricity Billings (sum of accounts issued) (KWh and Rand value)
- Free basic electricity allowance (not included in billings) (KWh and Rand value)
- Technical losses (estimated) (KWh and Rand value)
- Electricity revenue collected (Rand value)

In addition, the norms articulated in MFMA Circular No. 71 should also be taken into consideration.

6.11 Unauthorised, Irregular, Fruitless and Wasteful Expenditure (UIFW)

Cabinet adopted the Medium-Term Strategic Framework (MTSF) for 2019-2024 wherein it amongst others, committed that government will reduce irregular expenditure by 75 per cent and fruitless and wasteful expenditure by 100 per cent by 2024. It is important to note that these targets are applicable to each sphere of government. To this end, the Minister of Finance approved the UIFW Reduction Strategy for municipalities which was issued through MFMA Circular No. 111 in November 2021. The latter strategy advocated for municipalities to 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 have 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

section 71 reporting to enable the necessary monitoring and oversight by the National Treasury on the Implementation of these plans.

Going forward the Treasuries will place increased attention and focus on the processing of UIFW by municipalities as required by section 32(2) of the MFMA read with MFMA Circular No. 68. The National Treasury regards this consistent non-compliance for failure to adequately process and investigate UIFW as serious and if persistent will consider applying the available legal sanctions, including recourse in terms of section 216(2) of the Constitution.

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 councillors 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 councillor(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 26 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;

- Funding for projects constituted through Regulation 32 of the Municipal Supply Chain Management Regulations (Gazette No.27636). Projects linked to additional funding and disasters are exempted; and
- A portion of an allocation where the proof of commitment for the rollover application is linked to invoices that were issued before or on 31 May 2022.

8.2 Unspent conditional grant funds for 2021/22

The 2021/22 unspent conditional process will be managed in accordance with section 21 of DoRA, in order to ensure that the unspent conditional grants against the 2021/22 financial year return to the National Revenue Fund (NRF). In addition to the previous MFMA Circulars, the following practical arrangements will apply:

- Step 1: Municipalities must submit their 30 June 2022 conditional grant expenditure reports according to section 71 of the MFMA reflecting all accrued expenditure on conditional grants and further ensure that expenditure reported to both National Treasury and national transferring officers reconcile;
- Step 2: When preparing the Annual Financial Statements, a municipality must determine the portion of each national conditional grant allocation that remained unspent as at 30 June 2022. These amounts MUST exclude all interest earned on conditional grants, retentions and VAT related to conditional grant spending that has been reclaimed from SARS, which must be disclosed separately; and
- Step 3: If the receiving officer wants to motivate in terms of section 21(2) of the 2021 DoRA that the unspent funds are committed to identifiable projects, the rollover application pack must be submitted to National Treasury by no later than 31 August 2022.

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

- Step 4: National Treasury will confirm in writing whether or not the municipality may retain any of the unspent funds as a rollover based on criteria outlined above by 21 October 2022;
- Step 5: National Treasury will communicate the unspent conditional grants amount by 08 November 2022. A municipality must return the remaining unspent conditional grant funds that are not subject to a specific repayment arrangement to the National Revenue Fund (NRF) by 18 November 2021; and
- Step 6: Any unspent conditional grant funds that should have, but has not been repaid to the National Revenue Fund (NRF) by 18 November 2021, and for which a municipality has not requested a repayment arrangement, these funds will be offset against the municipality's 07 December 2022 equitable share allocation.

Annexure to MFMA Circular No. 86 addresses all the issues pertaining to Appropriation Statement and reporting on approved roll-overs.

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

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

This section requires municipalities to comply with section 16 (3) before any DoRA allocated funds that are allocated or transferred to any organ of state and the municipality should first seek approval from National Treasury. The allocation includes transfers made to any organ of state in order to perform a function using conditional grants allocated through the DoRA.

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

- If the municipality is benefitting and utilising from the five per cent from capital grants that may be utilized for Project Management Unit (PMU). In terms of the capital grant framework (i.e. MIG and the Integrated Urban Development Grant (IUDG) and three per cent for the Urban Settlements Development Grant (USDG) municipalities are allowed to utilise a certain per cent of the grant for PMU or capacity support in order to implement capital projects. Therefore, if municipalities are benefitting from this initiative the PMU should be capacitated enough to implement capital project;
- Municipalities that are benefitting from the added technical support from Municipal Infrastructure Support Agent (MISA) will not be granted approval because MISA would assist with providing support and develop technical capacity towards sustained accelerated municipal capacity and service delivery. This implies that the municipality would be capacitated and be in a better position to implement capital projects; and
- If the request does not comply to the grant conditions, framework and if the transfer artificially inflates the expenditure estimates.

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

- In consultation with the relevant transferring officer municipalities 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 mSCOA 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 mSCOA 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 mSCOA 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	Matjati Mashoeshoe	012-315 5553	Matjati.Mashoeshoe@treasury.gov.za
	Abigail Malla	012-395 6737	Abigail.Malla@Treasury.gov.za
Buffalo City	Mandla Gillmani	012-315 5807	Mandla.Gillmani@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	Matiati Mashoeshoe	012-315 5553	Matiati.Mashoeshoe@treasury.gov.za
Johannesburg and Tshwane	Abigail Malla	012-395 6737	Abigail.Malla@Treasury.gov.za
Ekurhuleni	Willem Voigt	012-315 5830	WillemCordes.Voigt@treasury.gov.za
	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
KwaZulu-Natal	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
eThekwinl	Kevin Bell	012-315 5725	Kevin.Bell@treasury.gov.za
Limpopo	Sifiso Mabaso	012-315 5952	Sifiso.mabaso@treasury.gov.za
	Sifiso Mabaso	012-315 5952	Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Mandla Gillmani	012-315 5807	Mandla.Gillmani@treasury.gov.za
	Lesego Legasa		Lesego.Legasa@treasury.gov.za
Northern Cape	Mandla Gillmani	012-315 5807	Mandla.Gillmani@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 Gillmani	012-315 5807	Mandla.Gillmani@treasury.gov.za
Technical issues with Excel formats	Sephiri Tihomeli	012-406 9064	jodataqueries@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 mSCOA requirements. The mSCOA 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 mSCOA, 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 main 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 mSCOA 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 mSCOA 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 mSCOA 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 mSCOA 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 GoMuni Upload Portal

The development work on the GoMuni Upload portal has been concluded and municipalities must submit all documents required for the 2022/23 MTREF in terms of legislation, as per the guidance provided in MFMA Circular No 112 dated 06 December 2021, via the GoMuni Upload Portal. The upload portal can be accessed on <https://lguploadportal.treasury.gov.za> from 01 April 2022.

All municipal officials that currently have access to the LG Upload portal will be granted access to the GoMuni Upload portal. New users will have to complete and submit a *Request for Access* to lgdataqueries@treasury.gov.za. The request form will be available on the GoMuni login page under new registrations.

10.3 Additional validation rules applicable to data string submissions

To ensure that credible data strings are submitted to the GoMuni Upload portal, additional validation rules will be introduced in the 2022/23 MTREF. The credibility and accuracy of the data strings must be verified by municipalities before submission on the GoMuni Upload. The additional validation rules will be implemented on the stage 1 validation. In other words, a data string that fails the validation will be rejected. The additional rules are as follows:

1. A balanced data string must be submitted. This means that the data strings that is submitted must always be in balance. All the transactions should be included for 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.

10.4 Publication of municipal documents

Going forward, the following municipal documents will be published on the GoMuni/ Go Public portal:

- Integrated Development Plans;
- Budget Documentation;
- Service Delivery and Budget Implementation Plans;
- Annual Financial Statements;
- Annual Reports; and
- Audit Reports.

Municipal documents submitted to the National Treasury prior to 2022 will be available on the MFMA webpage and can be accessed via the MFMP Share Point Documents option on GoMuni/ Go Public.

GoMuni/ Go Public can be accessed on the following link: <https://lg.treasury.gov.za>

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

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Municipal Budget Circular for the 2022/23 MTREF

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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 (*mSCOA*), and strives to support municipalities' budget preparation processes so that the minimum requirements are achieved.

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

Municipalities are reminded to refer to the annual budget circulars of the previous years for guidance 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 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%	4.6%

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 – R641 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 (*mSCOA*)

5.1 Release of Version 6.6 of the Chart

On an annual basis, the *mSCOA* 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.

mSCOA 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 *mSCOA* Technical Committee and if in agreement, it will be recommended for approval to the *mSCOA* 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 *mSCOA* data strings

The credibility of the *mSCOA* 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 *mSCOA* 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 *mSCOA* chart, balance sheet budgeting and movement accounting; and have change management taken place to ensure that *mSCOA* is institutionalised as an organisational reform and not only a financial reform.

It should be emphasised that the onus to ensure compliance with the *mSCOA* Regulations and minimum system specifications as per MFMA Circular No. 80 and its Annexure B rests with the municipality and not the system vendor. Municipalities should ensure that they budget sufficiently to become and remain *mSCOA* compliant.

The progress against the action plan must be monitored by the municipality's *mSCOA* 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 118(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 mSCOA 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:

- mSCOA 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 trial balance submitted to the GoMuni Upload portal.

5.6 Budgeting for the COVID-19 pandemic

In terms of mSCOA 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 mSCOA 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 mSCOA 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 mSCOA data strings for the majority of municipalities and the Covid-19 restrictions are 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 mSCOA 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 mSCOA 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 mSCOA 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://guploadportal.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 *mSCOA* 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 councillors 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 councillor(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 mSCOA 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 mSCOA 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 mSCOA 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 mSCOA 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	Matlaji Mashoeshoe	012-315 5553	Matlaji.Mashoeshoe@treasury.gov.za
	Abigail Malla	012-395 6737	Abigail.Malla@Treasury.gov.za
Buffalo City	Mandla Gillmani	012-315 5807	Mandla.Gillmani@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	Matlaji Mashoeshoe	012-315 5553	Matlaji.Mashoeshoe@treasury.gov.za
	Abigail Malla	012-395 6737	Abigail.Malla@Treasury.gov.za
Johannesburg and Tshwane	Willem Volgt	012-315 5830	WillemCordes.Volgt@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
eThekweni	Sifiso Mabaso	012-315 5952	Sifiso.mabaso@treasury.gov.za
Limpopo	Sifiso Mabaso	012-315 5952	Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Mandla Gillmani	012-315 5807	Mandla.Gillmani@treasury.gov.za
	Lesego Leqasa		Lesego.Leqasa@treasury.gov.za
Northern Cape	Mandla Gillmani	012-315 5807	Mandla.Gillmani@treasury.gov.za
	Phumelele Gulukunqu	012-315 5539	Phumelele.Gulukunqu@treasury.gov.za
North West	Willem Volgt	012-315 5830	WillemCordes.Volgt@treasury.gov.za
	Makgabo Mabotja	012-315 5156	Makgabo.Mabotja@treasury.gov.za
Western Cape	Willem Volgt	012-315-5830	WillemCordes.Volgt@treasury.gov.za
Cape Town	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
George	Mandla Gillmani	012-315 5807	Mandla.Gillmani@treasury.gov.za
Technical Issues with Excel formats	Sephiri Tihomeli	012-406 9064	kdafaqueries@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 mSCOA requirements. The mSCOA 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 mSCOA, 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 mSCOA 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 mSCOA 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 mSCOA 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 mSCOA 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:

- mSCOA 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 6663

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

JH Hattingh

Chief Director: Local Government Budget Analysis

06 December 2021