NATIONAL TREASURY

MFMA Circular No. 67
Municipal Finance Management Act No. 56 of 2003

Municipal Budget Circular for the 2013/14 MTREF

This circular provides further guidance to municipalities and municipal entities for the preparation of their 2013/14 Budgets and Medium Term Revenue and Expenditure Framework (MTREF). It must be read together with all previous MFMA Budget Circulars.

CONTENTS

1 KEY FOCUS AREAS FOR THE 2013/14 BUDGET PROCESS 2

2 DIVISION OF REVENUE BILL 2013 3
2.1 ADDITIONAL ALLOCATIONS TO LOCAL GOVERNMENT 2013 3
2.2 IMPACT OF CENSUS 2011 4
2.3 LOCAL GOVERNMENT EQUITABLE SHARE REVIEW 5

3 MACRO-ECONOMIC PERFORMANCE AND PROJECTIONS 7
3.1 INFLATION FORECASTS 7
3.2 EMPLOYEE RELATED COSTS 7

4 REVISING RATES, TARIFFS AND OTHER CHARGES 8
4.1 ESKOM BULK TARIFF INCREASES 8
4.2 INCLINING BLOCK TARIFFS (IBT) FOR ELECTRICITY 8
4.3 PROCESS FOR NERSA APPROVAL OF MUNICIPAL ELECTRICITY TARIFFS 9

5 REPORTING 10
5.1 UNBUNDLING OF DEBTORS FIGURES 10
5.2 INVESTMENTS 10
5.3 VARIANCES BETWEEN 4TH QUARTER SECTION 71 RESULTS AND ANNUAL FINANCIAL STATEMENTS 11
5.4 APPROPRIATION STATEMENT (RECONCILIATION: BUDGET AND IN-YEAR PERFORMANCE) 11
5.5 ADDITIONAL IN-YEAR REPORTING REQUIREMENTS 12
5.6 MUNICIPAL WATER INFRASTRUCTURE GRANT AND NON-REVENUE WATER 12
5.7 INTEGRATED CITY DEVELOPMENT GRANT 13

6 FUNDING CHOICES AND MANAGEMENT ISSUES 13
6.1 BENEFITS TO COUNCILLORS AND MAYORS 13
6.2 CELLULAR TELEPHONE (MOBILE) AND DATA CONTRACT POLICY 14

7 CONDITIONAL TRANSFERS TO MUNICIPALITIES 14
7.1 TIMING OF MUNICIPAL CONDITIONAL GRANT TRANSFERS 15
7.2 PAYMENT SCHEDULE FOR TRANSFERS 16
7.3 PROVINCIAL PAYMENT SCHEDULES 16
7.4 RESPONSIBILITIES OF TRANSFERRING AND RECEIVING AUTHORITIES 16
7.5 UNSPENT CONDITIONAL GRANT FUNDS FOR 2012/13 16
7.6 CRITERIA FOR THE ROLLOVER OF CONDITIONAL GRANT FUNDS 17
7.7 REPORTING AND ACCOUNTING FOR MUNICIPAL APPROVED CONDITIONAL GRANT ROLL-OVERS 18

8 THE MUNICIPAL BUDGET AND REPORTING REGULATIONS 18
8.1 ASSISTANCE WITH THE COMPILATION OF BUDGETS 19
8.2 BUDGET COMPLIANCE AND BENCHMARKING PROCESSES 19
8.3 CERTIFICATION THAT BUDGET IS CORRECTLY CAPTURED 20

9 BUDGET PROCESS AND SUBMISSIONS FOR THE 2013/14 MTREF 20
9.1 SUBMITTING BUDGET DOCUMENTATION AND SCHEDULES FOR 2013/14 20
9.2 BUDGET REFORM RETURNS TO THE LOCAL GOVERNMENT DATABASE FOR PUBLICATION 21
9.3 PUBLICATION OF BUDGETS ON MUNICIPAL WEBSITES 22
9.4 PUBLICATION OF MUNICIPAL BUDGETS ON NATIONAL TREASURIES WEBSITE 22

ANNEXURE A – CHANGES TO SCHEDULE A1 24

ANNEXURE B – APPROPRIATION STATEMENT (RECONCILIATION: BUDGET AND IN-YEAR PERFORMANCE) 25

1 Key focus areas for the 2013/14 budget process

The 2013 Budget Review notes that spending plans outlined in the 2013 Budget continue to support government's commitment to broadening service delivery and expanding investment in infrastructure, while taking account of the constrained fiscal environment. South Africa's economy has continued to grow, but at a slower rate than projected at the time of the 2012 Budget. GDP growth reached 2.5 per cent in 2012 and is expected to grow at 2.7 per cent in 2013, rising to 3.8 per cent in 2015. Inflation has remained moderate, with consumer prices rising by 5.7 per cent in 2012 and projected to increase by an average of 5.5 per cent a year over the period ahead.

Municipalities are reminded that the economic outlook is, however constrained by a difficult global environment and domestic restructuring. Due to lower-than-projected economic growth and revenue underperformance, government has adjusted the spending plans presented in the 2012 Medium Term Budget Policy Statement. Savings have been made at every level of government to moderate the fiscal deficit while supporting economic recovery. Expenditure has been trimmed in areas that will not adversely affect service delivery, or where programmes are underperforming. Within this economic climate the budget framework still provides for average annual real growth in consolidated government spending of 2.3 per cent over the MTEF period.

The medium-term expenditure framework (MTEF) uses the National Development Plan (NDP) as a point of departure. The NDP sets out an integrated strategy for accelerating growth, eliminating poverty and reducing inequality by 2030. The NDP supported by the New Growth Path and other programmes provides a platform to look beyond the current constraints to the transformation imperatives over the next 20 to 30 years. The NDP emphasises the need to lower the cost of living for households and reduce the cost of doing business for small and emerging enterprise. These objectives need to take into account fiscal sustainability, which ensures that progress will not be interrupted or reversed. This will also entail shifting the composition of spending from consumption towards capital investment.

Government already funds many of the programmes highlighted in the NDP. Road and rail infrastructure, for example, receive significant support over the three-year spending period and there will be major investments in public transport and human settlements. The economic competitiveness and support package will receive R14.9 billion over the spending period to give effect to various growth policies, including the New Growth Path and the Industrial Policy Action Plan. The Minister of Finance stated in his 2013 Budget Speech:

"The NDP reminds us that South Africa needs to invest in a strong network of economic infrastructure designed to support the county's medium- and long-term economic and social objectives".

Expenditure-control systems across government will be revised over the period ahead. There will be tighter rules for intergovernmental transfers, especially for infrastructure projects. Measures will be taken in supply chain management to make it harder for tender processes to be manipulated and to avoid situations where government pays above-market prices for goods and services, including local government.

Given the economic realities and the fact that recovery is likely to be slow, municipalities are once again reminded to adopt a conservative approach when projecting their expected revenues and cash receipts. Municipalities should also pay particular attention to the affordability of tariff increases especially on main services, managing all revenue and expenditure and cash streams effectively, and carefully evaluating all spending decisions.

Considering the accountability cycle of local government, municipalities are urged to carefully consider the objectives of the NDP and National Growth Path. As a sphere of government, municipalities are required to incorporate the objectives of these initiatives after consideration of the Spatial Development Frameworks (SDF) into their Integrated Development Plan (IDP) which should directly inform prioritised budget allocations within the medium-term revenue and expenditure framework (MTREF) of each municipality. Other variables that also need to be considered while compiling the 2013/14 MTREF budgets include the impact of 2011 Census on the IDP and more specifically backlogs and the 'poorest of the poor' (indigent), as well as spatial targeting of infrastructure investment.

Municipalities will have to revise their spending plans and reprioritise funds to ensure key objectives are achieved and well-performing programmes are supported. Expenditure plans need to reflect both the medium-term investment plans and long-term goals identified in the National Development Plan. Over the next three years, government, as a whole, will have to learn to do more with less. The efficiencies that are achieved will protect public finances and enable the country to accelerate development when economic conditions improve. Local government must ensure that efficiency gains, eradication of non-priority spending and the reprioritisation of expenditure relating to core infrastructure inform the next planning framework of all municipalities.

2 Division of Revenue Bill 2013

2.1 Additional allocations to local government 2013

The 2013 Budget Review and the 2013 Division of Revenue Bill indicate that over the 2013 MTEF, R277.7 billion will be transferred directly to local government and a further R21.5 billion has been allocated to indirect grants. Direct transfers to local government in 2013/14 account for 8.9 per cent of national government's non-interest expenditure and when indirect transfers are included this amount rises to 9.5 per cent. An amount of R5.4 billion is added to the local government equitable share to meet the rising costs of providing municipal services and to help rural municipalities, and R9.2 billion is added to direct conditional grants, which include the new municipal water infrastructure, public transport network operations and integrated city development grants. A further R5 billion is added to indirect transfers, through which national departments and public entities provide infrastructure and services on behalf of municipalities.

Local government allocations receive additional funds to address among others:

- Compensate for the rising costs of providing free basic water and electricity to poor households;
- Accelerate provision of access to clean water through bulk and reticulation projects;
- Accelerate provision of access to electricity and improving the sustainability of access through the refurbishment of key infrastructure;
- Expand the collection and use of data on the condition of municipal roads;
- Increasing the number of interns with infrastructure-related skills working in municipalities;
- Host the 2014 African Nations Championship (once off grant); and
- Promote more spatially integrated and efficient cities.

This means the baseline allocations to local government for the 2013/14 are R40.6 billion to the local government equitable share and R34.5 billion for conditional grants, capacity building and other. By 2015/16 these allocations are envisaged to have increased to R50.2 billion and R40.6 billion respectively. Municipalities must ensure that their tabled budgets reflect the equitable share and conditional grant allocations set out in the 2013 Division of Revenue Bill.

This document is available on National Treasury's website at:

http://www.treasury.gov.za/documents/national%20budget/2013/default.aspx

In addition, National Treasury will send out 'allocation letters' informing each municipality of its equitable share, national conditional grants and provincial transfers (as reflected in the relevant provincial budget and gazette).

2.2 Impact of Census 2011

The results of the latest national census were released by Statistics South Africa in October 2012. According to the 2011 Census, the population of some municipalities grew by over 50 per cent between 2001 and 2011, while others experienced a decline in population. Some provinces recorded significantly smaller populations in the 2011 Census than had been previously estimated, including KwaZulu-Natal, Eastern Cape, Limpopo and the Free State. Gauteng has the highest population increase of close to 1 million people. Transfers to municipalities will significantly be affected by this data as the data used in the local government equitable share and municipal infrastructure grant have been updated to reflect these changes.

In future the local government equitable share formula data for the number of households and those falling below the affordability threshold per municipality will be updated each year using average annual household growth in each municipality between the 2001 and 2011 Census. This data will be used to estimate future growth. The estimated total number of households reflected in the formula will be adjusted each year to balance with Statistics South Africa's mid-year population estimate (for the purposes of calculating these estimates, it will be assumed that average household size remains constant in future years). It is assumed that municipalities that experienced negative household growth between 2001 and 2011 will have zero growth in future. The credibility of estimates will be constantly reviewed and this methodology will be updated to reflect any municipal-level population estimates endorsed by Statistics South Africa or any municipal-level survey or census.

Census data used in the local government equitable share formula is available at:

http://www.statssa.gov.za/publications/Census%202011_data_supplied_to_National_Treasury.asp

Statistics South Africa has indicated that the detailed 2011 Census data per municipality will be made available at the end of March 2013. Municipalities must ensure they carefully analyse and evaluate the results; the 2011 Census results will have to be incorporated into the planning framework of all municipalities especially as it relates to backlogs in services, bulk master infrastructure plans and integrated infrastructure expansion.

2.3 Local Government Equitable Share Review

In terms of section 227 of the Constitution, local government is entitled to an equitable share of nationally raised revenue to enable it to provide basic services and perform its allocated functions. The local government equitable share is an unconditional transfer that supplements the income that municipalities can raise from the sources of own revenues available to them (including property rates and service charges). The equitable share provides funding for municipalities to deliver free basic services to poor households and subsidises the cost of administration and other core services for those municipalities that have the least potential to cover these costs from their own revenues.

The share of national revenue allocated to local government through the equitable share is determined in the national budget process and endorsed by Cabinet (the vertical division). Local government's equitable share is divided among the country's 278 municipalities using a formula (the horizontal division); this formula has been amended and updated and will be introduced in 2013/14, following a review conducted by the National Treasury, the Department of Cooperative Governance and the South African Local Government Association, with assistance from the Financial and Fiscal Commission and Statistics South Africa, as well as extensive consultation with municipalities.

The formula applies a revenue-adjustment factor that will direct funding for institutional and community services to municipalities that cannot meet these costs from their own revenues. The new formula and updated population data (2011 Census) will result in significant changes in allocations to local governments. More funding will be allocated to municipalities that have higher poverty rates and consequently less ability to raise their own revenue.

The local government equitable share formula uses demographics and other data to determine each municipality's share of the local government equitable share. It has three parts, made up of five components:

- The first part of the formula consists of the *basic services component*, which provides for the cost of free basic services for poor households.
- The second part enables municipalities with limited own resources to afford basic administrative and governance capacity and perform core municipal functions. It does this through three components:
  - The *institutional component* provides a subsidy for basic municipal administrative costs.
  - The *community services component* provides funds towards the provision of core municipal services not included under basic services.
  - The *revenue adjustment factor* ensures that funds from this part of the formula are only provided to municipalities with limited potential to raise own revenues. Municipalities least able to fund these costs from their own revenues should receive the most funding.
- The third part of the formula provides predictability and stability through a *correction and stabilisation factor*, which ensures that all of the formula's guarantees can be met.

The structure of the formula is summarised in the box below:

Structure of the local government equitable share formula

$$LGES = BS + (I + CS)xRA \pm C$$

where

LGES is the local government equitable share

BS is the basic services component

I is the institutional component

CS is the community services component

RA is the revenue adjustment factor

C is the correction and stabilisation factor

The new formula for the local government equitable share provides more households with a subsidy for free basic water, electricity, sanitation and refuse-removal services. For the 2013 MTEF, the indicative allocations for 2014/15 and 2015/16 have been calculated assuming electricity bulk price increases of 16 per cent, water bulk increases of 7.2 per cent, inflation of 5.1 per cent in 2014/15 and 4.9 per cent in 2015/16 and household growth in line with the period between 2001 and 2011. These variables will be updated in future budgets to reflect any changes in the growth in prices or estimates of population growth. Such updates will result in changes to the allocations to municipalities, and indicative allocations for future years will change to reflect adjustments in these variables.

The threshold for receiving free basic services rises from R800 per month (in 2001 prices) to R2 300 per month (in 2011 prices). The formula also provides funds for the institutional costs of municipalities and for community services; such as parks, recreation and fire fighting.

Importantly, although the affordability threshold that informs the equitable share formulae is set at R2 300 per month, municipalities are not specifically required to use this threshold in their individual indigent polices. Where municipalities have a different affordability threshold than the R2 300 per month as part of their indigent policy, they would need to clearly justify this position in the narrative to the budget document. As part of the Municipal Budget and Benchmark Engagements, National Treasury and the respective provincial treasuries will assess this component of the municipality's indigent policy.

With the introduction of the new equitable share formula and the updated 2011 Census data used in the formula, some municipalities will experience large changes in their equitable share allocations. To smooth the impact of these changes and give municipalities time to adjust (both for municipalities with increasing and decreasing allocations), the new allocations will be phased in over five years. For municipalities with smaller allocations under the new formula, the phase-in mechanism will measure the difference between the municipality's old and new allocations and will close this gap by 20 per cent each year. This means that in the first year, a municipality will only experience a change equivalent to 20 per cent of the gap between their allocations under the old and the new formulas, in the second year they will experience a 40 per cent change, and so on until in the fifth year their allocation is determined entirely through the new formula.

In compiling their 2013/14 MTREF Budgets municipalities must ensure they accurately budget for the actual gazetted equitable share allocations as per the 2013 DoRA.

A full description of the new formula is provided in Annexure W1 (Explanatory memorandum to the division of revenue). This document as well as a summary version of the formula are available on National Treasury's website at:

http://www.treasury.gov.za/documents/national%20budget/2013/review/default.aspx

In addition, more details on how the cost estimates were calculated can be found in the discussion paper on the proposed structure of the new local government equitable share formulae. This document is available on National Treasury's website at:

http://mfma.treasury.gov.za/Media_Releases/LGESDiscussions/Pages/default.aspx

3 Macro-economic performance and projections

3.1 Inflation forecasts

Municipalities must take the following macro-economic forecasts into consideration when preparing their 2013/14 budgets and MTREF –

Fiscal year	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
	Actual		**Estimate**		**Forecast**	
Real GDP growth	3.4	3.1	2.5	3.0	3.6	3.8
CPI inflation	3.8	5.6	5.6	5.6	5.4	5.4

Source: Budget Review 2013
Note that 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.

3.2 Employee related costs

Municipalities must take into account the multi-year Salary and Wage Collective Agreement for the period 1 July 2012 to 30 June 2015. The agreement provides for a wage increase based on the average CPI for the period 1 February 2012 until 31 January 2013, plus 1.25 per cent for the 2013/14 financial year.

In this regard municipalities are advised that average CPI for this period is 5.6 per cent. Municipalities are therefore advised to provide for increases related to salaries and wages for the 2013/14 budget year of 6.85 per cent (5.6 per cent plus 1.25 per cent). The agreement also provides for a 1 per cent increase for the 2014/15 financial year. In this regard, municipalities may provide for a 6.4 per cent (5.4 per cent plus 1 per cent) increase for the 2014/15 budget year.

Municipalities are once again reminded to accurately budget for actual positions and vacancies as per the organisational structure of the municipality and notch increments where applicable. Municipalities are also required to accurately complete supporting tables SA22 (Summary councillor and staff benefits), SA23 (Salaries, allowances and benefits of political office bearers/councillors/senior managers) and SA24 (summary of personnel numbers) as part of the Municipal Budget and Reporting Regulations. Municipalities are also required to provide a narrative to the budget document explaining the personnel numbers and budget appropriations.

4 Revising rates, tariffs and other charges

In addition to the issues dealt with in MFMA Budget Circular 66, municipalities are advised to note the following:

4.1 Eskom bulk tariff increases

The Eskom price increase of bulk electricity supplied to municipalities will increase by 8 per cent on 1 July 2013. NERSA approved an annual 8 per cent increase in the bulk price of electricity in terms of the third multi-year price determination application applicable for the period 2013/14 to 2017/18. The full media statement detailing NERSA's decision to approve an 8 per cent increase can be accessed at: www.nersa.org.za.

NERSA is in the process of determining a guideline increase for municipal electricity tariffs. They have indicated that they will only be in a position to finalise this guideline by the end of March 2013. Bulk electricity as a cost driver can contribute as much as 75 per cent of municipalities' electricity function, and considering that the average wage increase (a significant cost component of the municipal electricity function) for the 2013/14 Financial Year is 6.85 per cent (5.6 per cent plus 1.25 per cent) municipalities are advised to limit electricity increases to between 7.5 and 8.0 per cent. National Treasury will consult with NERSA on the methodology applied in determining the municipal tariff increase and communicate with all municipalities once the final guideline is available (envisaged for the end of March 2013).

Municipalities are urged to examine the cost structure of their electricity undertakings and apply to NERSA for electricity tariff increases that are cost reflective to ensure continued financial sustainability.

National Treasury supports the use of the following formula, proposed by NERSA, for calculating municipal electricity tariff increases:

$$MG = (B \times BPI) + (S \times SI) + (R \times RI) + (C \times CCI) + (OC \times OCI)$$

Where:

MG = % Municipal Guideline Increase
B = % Bulk purchases
BPI = % Bulk purchase increase
S = % Salaries
SI = % Salaries increase
R = % Repairs
RI = % Repairs increase
C = % Capital charges
CCI = % Capital charges increase
OC = % Other costs
OCI = % Other costs increase

> All cost shares and increases must relate to the electricity function of the municipality

Where a municipality's evaluation of its cost structure results in a lower or higher tariff increase to that proposed by NERSA, the municipality must structure its tariffs accordingly and ensure it provides the necessary motivation and information in its tariff application to NERSA.

4.2 Inclining block tariffs (IBT) for electricity

Municipalities are urged to design an IBT structure that is appropriate to its specific circumstances, and maintains an appropriate balance between 'low income customers' and other domestic, commercial and business customers, and the financial interests of the municipality.

It is also important that any proposed IBT is fully aligned to the principles set out in the *South African Electricity Supply Industry: Electricity Pricing Policy* (EPP), including the principle that electricity tariffs must be cost reflective and that any cross-subsidies should be explicit.

A municipality must ensure that it provides the necessary motivation and information to NERSA in its tariff application. In this regard, municipalities should pay careful attention to determining an appropriate level of cross-subsidisation between the different IBT blocks given the profile of its customer base, and also have regard for the price elasticity of the demand for electricity.

4.3 Process for NERSA approval of municipal electricity tariffs

It is important that municipalities and NERSA work together to ensure that the process of approving electricity tariffs does not disrupt the process of compiling municipal budgets or compromise community consultations on the budget. In terms of section 43 (2) of the MFMA, the Minister of Finance may, on good grounds, approve that tariffs determined by NERSA after 15 March 2013 be implemented by municipalities from 1 July 2013.

Owing to the delay in finalising Eskom's approved tariff increase (announced 28 February 2013) NERSA has indicated that this would affect the timelines in the determination of the municipal guideline tariff. As a result, NERSA does not anticipate meeting the 15 March 2013 deadline and has applied to the Minister for extension, as provided for in Section 43 of the MFMA.

Considering the pending extension application by NERSA, municipalities are advised as follows, as it relates to NERSA's regulatory process over municipal electricity tariff determination:

- Municipalities are to formulate their electricity tariff structures for the 2013/14 budgets and MTREF's based on the indicative 7.5 to 8.0 per cent increase as discussed in paragraph 4.1 above. This must inform the tabled 2013/14 budget and MTREF prior to community consultation. Please note that this is an indicative increase for budget preparation purposes and does not replace the formal NERSA processes. As soon as available, the indicative electricity tariff increase needs to be updated in terms of NERSA's approved tariff increase for 2013/14;
- Submit a tariff application to NERSA containing all the required information as soon the budget is tabled in council prior community consultation; the latest possible date being 31 March 2013. Municipalities are however urged to supply NERSA with their tariff applications earlier than this date to facilitate the entire process; and
- NERSA is to finalise the municipal electricity determination process by the 26 April 2013, including formal feedback to municipalities for incorporation into the final 2013/14 budgets and MTREF.

Municipalities are once again reminded to submit all outstanding D-forms to NERSA. The deadline for submission was 30 October 2012. NERSA will not be in a position to evaluate municipal tariff applications in the absence of complete D-forms.

It has come to the attention of National Treasury that several municipalities impose electricity tariff increases without undergoing the necessary NERSA tariff application process. Municipalities should take note that the NERSA electricity tariff application process is a legislative requirement and municipalities that fail to adhere to the application process are acting outside the ambit of the law.

5 Reporting

Currently all 278 municipalities report through the section 71 in-year reporting framework to both the National Treasury and respective provincial treasuries as informed by the MFMA and Municipal Budget and Reporting Regulations (MBRR). In terms of the local government reform roadmap, the next step will be to improve the quality and reliability of reported financial performance. To this end, with effect of 1 July 2013 various refinements and amendments will be made to the section 71 in-year reporting framework which municipalities need to be aware of and proactively gear themselves for full compliance and implementation.

5.1 Unbundling of debtors figures

The MBRR and section 71 in-year reporting framework provides for the disclosure of outstanding debtors and the age analysis of all outstanding debtors. Budget Table A6 (Statement of Budgeted Financial Position) of the MBRR provides for the disclosure of outstanding debtors at an aggregated level and is supported by Table SA3 (Supporting Detail to Budgeted Financial Position). In terms of the section 71 in-year reporting framework the return form AD: Age Analysis of Debtors is currently utilised in collecting detail relating to outstanding debtors.

Municipalities will be required to further unbundle debtors; in-year reporting refinements will include the unbundling of government debtors into national and provincial departments and the disclosure of the interest component of outstanding debtors separately. This information is critical in unpacking and understanding debt owed to municipalities and the impact of such debt on financial sustainability. This is also required to limit the use of ‘other debtors’ in the reporting returns; ‘other debtors’ as a percentage of outstanding debtors is unacceptably high and municipalities are urged to limit the use of ‘other debtors’.

Further guidance will be supplied to all municipalities in due course as to the reporting refinements and additional requirements. Municipalities are therefore advised to diligently and attentively budget for all outstanding debtors on Table A6 (Statement of Budgeted Financial Position) of the MBRR and supporting Table SA3 (Supporting Detail to Budgeted Financial Position) as part of the 2013/14 MTREF budget compilation process.

Municipalities are further reminded that the in-year reporting for the balance sheet (which includes outstanding debtors and creditors) must reflect the financial position of the municipality at that point in time (snapshot). Reporting in terms of the Statement of Financial Position (Balance Sheet) must not be informed by monthly movements.

5.2 Investments

The MBRR also provides for the disclosure of all investment information. In terms of the budget, Table A6 (Statement of Budgeted Financial Position) of the MBRR provides for the disclosure of all investments at an aggregated level and is supported by Table SA15 (Investment Particulars by Type) and Table SA16 (Investment particulars by maturity); reporting on investments is undertaken through return form BSAC: Statement of Financial Position Actual.

Municipalities will be required to further unbundle investments aligned to the reporting requirements contained in the supporting tables to the MBRR (Table SA15 and Table SA16). Further guidance will be supplied to all municipalities in due course as to the reporting refinements and additional requirements. Municipalities are therefore advised to diligently and attentively budget for all investments on Table A6 (Statement of Budgeted Financial Position) of the MBRR and supporting Tables SA15 and SA16 (Investment particulars by type and maturity).

5.3 Variances between 4th quarter section 71 results and annual financial statements

In terms of the verification process for the fourth quarter of the 2011/12 financial year, differences have been observed by National Treasury between the section 71 in-year reported figures and the figures contained in the 2011/12 annual financial statements for both the debtors and creditors age analyses (electronic return forms AD and AC). Ideally these two sources of municipal performance and financial position information should reconcile, which is currently not the case.

Municipalities are reminded that the section 71 in-year reporting framework provides the basis for National Treasury's monitoring and oversight. The Local Government Database is utilised in the compilation of various publications such as the Quarterly Section 71 Publication, State of Local Government Finances Report, and the biennial Local Government Budget and Expenditure Review as well as acting as an early warning system for local government. In addition, the aggregated outcomes are utilised in the formulation of policy responses to local government such as funding and grant structures. It's therefore extremely important that the reported figures are a true reflection of the municipality's performance and financial position, regardless of source.

Although National Treasury understands that the time lapse between the fourth quarter and finalization of the annual financial statements could result in the restating of figures, we would expect these variances to be restricted to a minimum. Significant variances indicate that the municipality merely completes and report through Section 71 as a compliance requirement and limited care is applied in ensuring the accuracy of year-end results. Variances of up to 100 per cent have been observed between the 4th quarter reported balances for outstanding creditors and debtors and that of the AFS.

As part of the current verification process National Treasury has determined a variance threshold of 10 per cent between figures reported in the 4th quarter of the 2011/12 financial year for outstanding creditors and debtors when compared to the AFS. Where variances are in excess of the 10 per cent threshold, those municipalities will receive correspondence in due course affording them an opportunity to clarify and rectify these differences and also to indicate proposed remedial actions to be instituted to avoid similar occurrences in future.

5.4 Appropriation statement (Reconciliation: Budget and in-year performance)

In terms of the Standards of GRAP 24 on Presentation of Budget Information in Financial Statements municipalities are required to present their original and adjusted budgets against actual outcome in the annual financial statements; this is considered an appropriation statement and the comparison between the budget and actual performance should be a mirror image of each other as it relates to the classification and grouping of revenue and expenditure as has been the case in a national and provincial context. This statement is subject to auditing and accordingly supporting documentation would be required to substantiate the compilation of this statement.

Municipalities will be required to populate a comprehensive appropriation statement (reconciliation between budget, adjustments budget and yearend position) with the compilation of the 2012/13 annual financial statements.

As part of the SCOA classification process perfect alignment between the Municipal Budget and Reporting Regulations and specimen annual financial statements will facilitate the compilation of an appropriation statement and ensure compliance to the Standards of GRAP 24.

During the compilation of the 2013/14 MTREF budgets, municipalities need to carefully consider how revenue and expenditure appropriations are classified with the objective of facilitating the compilation of a comprehensive yearend appropriation statement for the 2013/14 AFS. The format of the appropriation statement is attached as Annexure B. The complete Excel document can be accessed on the National Treasury website at:

http://mfma.treasury.gov.za/Circulars/Pages/default.aspx

5.5 Additional in-year reporting requirements

In future municipalities will be required to provide additional information and supporting documentation to the National Treasury as part of the submission of the Section 71 input forms. This information will assist in improving the quality of the quarterly published local government performance information. Additional information and supporting documentation includes:

- An extract of the trial balances from the general ledger;
- Copies of the actual monthly bank statements (reflecting the opening and closing bank balances) for the primary bank account;
- Bank reconciliation for the reporting period in the primary bank account; and
- Copies of the quarterly tabled section 71 documents in the prescribed Schedule C format including the applicable council resolution.

5.6 Municipal water infrastructure grant and non-revenue water

The 2013 DoRA introduces a new grant namely; the Municipal Water Infrastructure Grant to be administered by the Department of Water Affairs. The grant is aimed at accelerating the delivery of clean water to communities that do not have access to basic water services. The grant provides funding for municipalities to plan and implement various projects; including the construction of new infrastructure and the refurbishment and extension of existing water schemes. The grant has an allocation of R4.3 billion over the 2013 MTEF. Access to clean water must be considered a strategic priority for local government, especially when considering objectives of the new Municipal Water Infrastructure Grant.

According to the latest National Non-Revenue Water Assessment Report (*The state of non-revenue water in South Africa, Report TT522-12*: www.wrc.og.za); recently released by the Water Research Commission and the Department of Water Affairs, more than 50 per cent of municipalities cannot provide a water balance. These municipalities cannot determine whether demand for water exceeds supply or quantify the extent to which non-revenue water influences water security and financial sustainability.

Considering this strategic imperative, managing non-revenue water becomes a critical aspect of accelerating the delivery of clean water to communities. Municipalities are required to ensure appropriate measurement and reporting of all water losses as per the national targets, and to ensure a common understanding and alignment between technical and financial departments on water loss issues. Inconsistencies have been observed in the methodology applied by municipalities in reporting water losses.

Municipalities are reminded that they are required to report on both apparent (commercial) and real (physical) losses as per the Modified International Water Association (IWA) Water Balance for South Africa. Municipalities are referred to the 2011 Local Government Budget and Expenditure Review (pages 131 to 140) for further information. The document can be accessed at:

http://www.treasury.gov.za/publications/igfr/2011/lg/default.aspx

In addition municipalities can email Paul Herbst (HerbstP@dwa.gov.za) at the Department of Water Affairs should further assistance be required in applying the measures.

The water balance and non-revenue water statistics needs to be updated on at least a quarterly basis and reported to the SALGA's benchmarking system at http://www.munibench.co.za/. This data will subsequently be shared with other stakeholders including municipalities for the purpose of benchmarking municipal progress and performance. It is also the intention of National Treasury to include this information in the quarterly section 71 publications and all municipalities are urged to ensure they accurately report this information going forward.

5.7 Integrated City Development Grant

The Integrated City Development Grant is a new grant introduced in the 2013 DoRA that can potentially be accessed by metropolitan municipalities. The grant will support metropolitan municipalities to identify and establish integration zones within cities, including the establishment of measureable performance objectives, indicators and targets. Metropolitan municipalities will also be assisted to plan and programme a series of catalytic investments within these integration zones. The establishment of the zones will firstly, allow all public interventions to be focussed in an identified spatial context in order to leverage a private investment response. Secondly, it will enable all spheres of government to measure and manage the change of the spatial form and pace in our cities.

Metropolitan municipalities are currently participating in the development of indicators that will be used to measure and reward performance in subsequent years of the grant. The indicators will eventually need to be mainstreamed into city planning (such as the IDP and SDBIP) and budgeting.

Guidelines for the implementation of the Integrated City Development Grant will be made available in due course to all the metropolitan municipalities.

6 Funding choices and management issues

6.1 Benefits to councillors and mayors

In terms of section 167(2) of the MFMA, any remuneration paid in cash or kind to a person as a political office-bearer or as a member of a political structure of a municipality, other than is provided for in the framework of the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998), is regarded as irregular expenditure. This remuneration includes any bursary, loan, advance or other benefit.

The Determination of Upper Limits of Salaries, Allowances and Benefits of Different Members of Municipal Councils (Government Gazette No. 35962) creates allowance for 'tools of trade'. As defined in the Gazette, tools of trade are the resources or enabling facilities provided by a municipal council to a councillor to enable effective and efficient fulfilment of his/her duties in the most cost effective manner, and at all times remain the assets of the municipality. Section 14 of the Gazette details the tools of trade that may be extended to councillors. Government Gazette No. 35962 can be accessed at:

http://www.info.gov.za/view/DownloadFileAction?id=180122

Municipalities are reminded to adhere strictly to the gazetted limits and provisions.

In the event that expenditure outside the set limits has already been incurred, the municipality must recover that remuneration from the political office-bearer or member and may not write-off any expenditure incurred in paying or giving that remuneration. This expenditure will be classified as irregular expenditure and the Auditor General will be instructed to audit accordingly.

6.2 Cellular telephone (mobile) and data contract policy

It has to come to the attention of National Treasury that there are efficiency leakages in the way that municipalities manage costs associated with cellular telephones and mobile data (3G). National Treasury has come across instances were municipalities are spending tens of thousands on individual contracts per month. This situation must be urgently addressed by all municipalities in ensuring cost efficiency and value for money for the tax payer.

Where such a policy is not already in place, municipalities are required to compile and approve a cellular telephone (mobile) and data (3G) policy with effect of 1 July 2013. The policy must set upper monthly limits for costs associated with these expenses and the 2013/14 MTREF budget must be compiled in line with these limits.

National Treasury will request the Auditor General to audit against the policy for the 2013/14 financial year and where it is found that expenditure was incurred outside the limits contained in the policy framework, such expenditure will be classified as fruitless and wasteful expenditure as part of the 2013/14 audit finding.

7 Conditional transfers to municipalities

Section 214 of the Constitution provides for national government to transfer resources to municipalities in terms of the annual Division of Revenue Act (DoRA) to assist them in exercising their powers and performing their functions. These allocations are announced annually in the national budget. Transfers to municipalities from national government are supplemented with transfers from provincial government. Further, transfers are also made between district municipalities and local municipalities.

The DoRA provides for funds to be allocated in different ‘schedules’. Each of the schedules provide for grants of a particular type as follows:

Schedule 1		Equitable division of revenue raised nationally among the three spheres of government
Schedule 2		Determination of each province’s equitable share of the provincial sphere’s share of revenue raised nationally (as a direct charge against the National Revenue Fund)
Schedule 3		Determination of each municipality’s equitable share of the local government sphere’s share of revenue raised nationally
Schedule 4	Part A	Allocations to provinces to supplement the funding of programmes or functions funded from provincial budgets
	Part B	Allocations to municipalities to supplement the funding of programmes or functions funded from municipal budgets
Schedule 5	Part A	Specific purpose allocations to provinces
	Part B	Specific purpose allocations to municipalities
Schedule 6	Part A	Allocations-in-kind to provinces for designated special programmes
	Part B	Allocations-in-kind to municipalities for designated special programmes

Schedule 7	Part A	Provision to specifically cater for immediate release of funds to provinces for disaster response
	Part B	Provision to specifically cater for immediate release of funds to municipalities for disaster response

It is important that the transfers applicable to municipalities are made transparently, and properly captured in municipalities' budgets. In this regard, regulation 10 of the *Municipal Budget and Reporting Regulations* provides guidance on when municipalities should reflect a transfer or donation in their budgets. Note that promises of funds that do not meet the requirements set out in regulation 10 must not be included in the municipality's budget.

Municipalities are advised not to accept transfers from national or provincial departments that are not gazetted in terms of the 2013 Division of Revenue Act (once enacted) or the relevant provincial budget, or that are not related to a properly approved agency agreement. Such ad hoc transfers are very often unauthorised expenditure at the national and provincial level, and are invariably related to fiscal dumping.

Also note that grants-in-kind (e.g. capital assets transferred by a district to a local municipality) need to be budgeted for as a 'transfer or grant' on Table A4 by the district municipality (and not on their Table A5 Capital Budget – since the expenditure does not get capitalised), and as a 'contributed asset' on Table A4 by the local municipality, and from there directly on Table A6 Budget Financial Position.

In support of regulation 10 of the *Municipal Budget and Reporting Regulations*, the 2013 Division of Revenue Bill provides that –

1. In terms of section 15, National Treasury is required to publish in the *Government Gazette* the allocations and indicative allocations for all national grants to municipalities;
2. In terms of section 29, each provincial treasury is required to publish in the *Government Gazette* the allocations and indicative allocations per municipality for every allocation to be made by the province to municipalities from the province's own funds; and
3. In terms of section 28, each category C municipality must indicate in its budget all allocations from its equitable share and conditional allocations to be transferred to each category B municipality within the category C municipality's area of jurisdiction.

The Government Gazette reflecting the allocations and indicative allocations for all national grants to municipalities will be available within 14 days of the 2013 Division of Revenue Act being signed into law at the following address:

http://www.treasury.gov.za/legislation/bills/2013/Default.aspx

In addition, National Treasury publishes a payment schedule that sets out exactly when the equitable share and national conditional grant funds are to be transferred to municipalities. This will be available at:

http://mfma.treasury.gov.za/Media_Releases/Municipal%20Payment%20Schedule/Pages/default.aspx

7.1 Timing of municipal conditional grant transfers

In order to facilitate synchronisation of the national / provincial financial year (1 April to 31 March) with the municipal financial year (1 July to 30 June), the 2013 Division of Revenue Bill requires that all equitable share and Schedule 4 and 5 conditional allocations to municipalities must be transferred to municipalities within the period 1 July 2013 to 31 March 2014. Municipalities must not accept any equitable share, Schedule 4 and Schedule 5 transfers from national or provincial departments outside of these timeframes.

National and provincial departments are also advised to only transfer other grant funds and to only make agency payments to municipalities within the period 1 July 2013 to 31 March 2014. This is to ensure the municipality is able to include such funds on its budget for 2013/14 and to ensure that reporting on the use of the funds is properly aligned across the national, provincial and municipal financial years.

7.2 Payment schedule for transfers

National Treasury has instituted an automated payment system for transfers to municipalities in order to ensure appropriate safety checks are put in place.

Section 22 of the 2013 Division of Revenue Bill requires transfers to municipalities to be made as per the approved payment schedule published by National Treasury. Through this system, any transfers not in line with the payment schedule will be rejected. In addition, if the payment *details of the municipality are not up-to-date the transfers will also be rejected.*

7.3 Provincial payment schedules

The payment schedules that provincial treasuries are required to submit to National Treasury in terms of section 29(5) of the 2013 Division of Revenue Bill will be published on National Treasury's website, along with the national payment schedule.

7.4 Responsibilities of transferring and receiving authorities

The legal obligations placed on transferring and receiving officers in terms of the 2013 Division of Revenue Bill are very similar to previous requirements. National Treasury intends ensuring strict compliance in order to improve spending levels, and the quality of information relating to the management of conditional grants.

Municipalities are again reminded that compliance with the annual Division of Revenue Act is the responsibility of the municipal manager as the "receiving officer". The municipal manager is responsible for, among other things, the tabling of monthly reports in council on whether or not the municipality is complying with the Division of Revenue Act. He/she is also responsible for reporting on any delays in the transfer or the withholding of funds. Failure on the part of a municipal manager to comply with the Act will have financial implications for the municipality as it will lead to the municipality losing revenue when funds are stopped and/or reallocated.

Where the municipality is unable to comply, or requires an extension, the municipal manager must apply to the National Treasury and provide comprehensive motivation for the non-compliance.

7.5 Unspent conditional grant funds for 2012/13

To bring legal certainty to the process of managing unspent conditional grant funds, section 21 of the 2013 Division of Revenue Bill contains all provisions relating to the treatment of unspent conditional grant funding.

The process to ensure the return of unspent conditional grants for the 2012/13 financial year will be managed in accordance with section 21 of the Division of Revenue Bill. In addition to the previous MFMA circulars, the following practical arrangements will apply –

Step 1: Municipalities must submit their June 2013 conditional grant expenditure reports according to section 71 of MFMA reflecting all accrued expenditure on conditional grants.

Step 2: When preparing their annual financial statements a municipality must determine what portion of each national conditional allocation it received remained unspent as at 30 June 2013. These amounts MUST exclude all interest earned on conditional grants and all VAT related to conditional grant spending that has been *reclaimed from SARS*, which must be disclosed separately.

Step 3: If the receiving officer wants to motivate in terms of section 21(5)(b) of the Division of Revenue Bill 2013 that the funds have been spent or are committed to identifiable projects or wants to propose an alternative payment method or schedule the required information must be submitted to National Treasury by 30 August 2013. ***National Treasury will not consider any rollover requests that are incomplete (see item 7.6 below) or that are received after this deadline.***

Step 4: National Treasury will confirm in writing whether or not the municipality may retain as a rollover any of the unspent funds because they are committed to identifiable projects or whether it has agreed to any alternative payment methods or schedules by 1 October 2013.

Step 5: A municipality must return the remaining unspent conditional grant funds that are not subject of a specific repayment agreement with National Treasury to the National Revenue Fund by 21 October 2013. Failure to return these unspent funds by this date will constitute financial misconduct in terms of section 34 of the Division of Revenue Act.

Step 6: Any unspent conditional grant funds that should have been repaid to the National Revenue Fund by 21 October 2013 will be offset against the municipality's November equitable share allocation.

All the calculations of the amounts to be surrendered to the National Revenue Fund will be audited by the Auditor-General.

7.6 Criteria for the rollover of conditional grant funds

Municipalities may not rollover unspent conditional grant spending in terms of section 28(2)(e) of the MFMA (read together with regulation 23(5) of the Municipal Budget and Reporting Regulations) because they are national/provincial funds. The applicable rollover process is then given effect through the municipal adjustments budget in January/February each year for all the cash/transfers that had already been transferred to the bank accounts of municipalities prior to the end of the financial year. In this regard refer to MFMA Budget Circular No. 51 for more information.

Section 21 of the 2013 Division of Revenue Bill requires that any conditional grants which are not spent at the end of the municipal financial year must revert to the National Revenue Fund, unless the receiving officer proves to the satisfaction of National Treasury that the unspent allocation is committed to identifiable projects, in which case the funds may be rolled over.

When applying to retain unspent conditional allocations committed to identifiable projects or requesting a rollover in terms of section 21(2) of the Division of Revenue Act, municipalities must supply National Treasury with the following information –

1. A formal letter addressed to the National Treasury requesting the rollover of unspent conditional grants in terms of section 21(2) of the 2013 of DoRA;
2. List of all the projects that are linked to the unspent conditional grants;
3. Evidence that work on each of the projects has commenced, namely either of the following:
    a. Proof that the project tender was published and the period for tender submissions closed before 30 June; or
    b. Proof that a contract for delivery of the project was signed before 30 June.

4. A progress report on the state of implementation of each of the projects;
5. The amount of funds committed to each project, and the conditional allocation from which the funds come;
6. An indication of the time-period within which the funds are to be spent; and
7. Proof that the Chief Financial Officer is permanently appointed. ***No rollover requests will be considered for municipalities with vacant or acting chief financial officers***.

If any of the above information is not provided or the application is received by National Treasury after 30 August 2013, the application will be declined.

In addition, National Treasury will also take into account the following information when assessing rollover applications, and reserves the right to decline an application if there is non-performance by the municipality in any of these areas:

1. Compliance with the in-year reporting requirements in sections 71 and 72 of the MFMA and section 12 of the 2013 DoRA, including the municipal manager and chief financial officer signing-off on the information sent to National Treasury;
2. Submission of the pre-audit Annual Financial Statements information to National Treasury by 31 August 2013;
3. Accurate disclosure of grant performance in the 2012/13 pre-audit Annual Financial Statements; and
4. Cash available in the bank as at 30 June 2013 to finance the roll-over request.

When approving any rollover requests, National Treasury will use the latest conditional grant expenditure information available at the time, which in this instance is likely to be the disclosure of grant performance in the 2012/13 pre-audit Annual Financial Statements which need to be concluded by 31 August 2013.

7.7 Reporting and accounting for municipal approved conditional grant roll-overs

A municipality must report separately on the spending of conditional grant funds that are rolled over. National Treasury has provided a separate reporting template to facilitate this. This template must be submitted together with the normal template for reporting conditional grant spending for the current year. The template is available at the following link:

http://mfma.treasury.gov.za/Return_Forms/Pages/default.aspx

8 The Municipal Budget and Reporting Regulations

National Treasury has released Version 2.5 of Schedule A1 (the Excel Formats). This version incorporates minor changes (see Annexure A). Therefore ALL municipalities MUST use this version for the preparation of their 2013/14 Budget and MTREF to be tabled by the latest 29 March 2013.

Download Version 2.5 of Schedule A1 by clicking **HERE**

The Municipal Budget and Reporting Regulations are designed to achieve a range of objectives, including improving the local government sphere's ability to deliver services by facilitating improved financial sustainability and better medium term planning. The regulations, formats and associated guides etc. are available on National Treasury's website at: http://mfma.treasury.gov.za/RegulationsandGazettes/Pages/default.aspx

8.1 Assistance with the compilation of budgets

If you require advice with the compilation of your budgets, the budget documents or Schedule A1 please direct your enquiries as follows:

Municipalities in…	Responsible NT officials	Tel. No.	Email
Eastern Cape	Templeton Phogole Ansie Myburgh	(012) 395 5054 (012) 315 5173	Templeton.Phogole@treasury.gov.za Ansie.Myburgh@treasury.gov.za
Free State	Vincent Malepa Kgomotso Mokienie	(012) 315 5539 (012) 315 5866	Vincent.Malepa@treasury.gov.za Kgomotso.Mokienie@treasury.gov.za
Gauteng	Nozipho Molikoe Thabang Manaka	(012) 395 5662 (012) 395 6567	Nozipho.Molikoe@treasury.gov.za Thabang.Manaka@treasury.gov.za
KwaZulu-Natal	Johan Botha Cassandra Mculu	(012) 315 5171 (012) 315 5276	Johan.Botha@treasury.gov.za Cassandra.Mculu@treasury.gov.za
Limpopo	Bernard Mokgabodi Sifiso Mabaso	(012) 315 5936 (012) 315 5952	Bernard.Mokgabodi@treasury.gov.za Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Jordan Maja Anthony Moseki	(012) 315 5663 (012) 315 5174	Jordan.Maja@treasury.gov.za Anthony.Moseki@treasury.gov.za
Northern Cape	Marli van der Woude Mandla Gilimani	(012) 315 5303 (012) 315-5807	Marli.vanderWoude@treasury.gov.za Mandla.Gilimani@treasury.gov.za
North West	Willem Voigt Sadesh Ramjathan	(012) 315 5830 (012) 315 5101	Willem.Voigt@treasury.gov.za Sadesh.Ramjathan@treasury.gov.za
Western Cape	Vuyo Mbunge Kevin Bell Sonwabise Lupiwana	(012) 315 5661 (012) 315 5725 (012) 395 6554	Vuyo.Mbunge@treasury.gov.za Kevin.Bell@treasury.gov.za Sonwabise.Lupiwana@treasury.gov.za
Technical issues with Excel formats	Ilze Baron	(012) 395 6742	Ilze.Baron@treasury.gov.za

8.2 Budget compliance and benchmarking processes

National Treasury and the provincial treasuries will again assess all the municipalities' tabled budgets against the Compliance Checklist. Where there is substantial non-compliance municipalities will be required to re-table their budgets in council, otherwise municipalities will be expected to make the necessary improvements prior to tabling the budget for approval by 1 June 2013.

In addition, the National Treasury and provincial treasuries will be conducting benchmark budget hearings on the municipalities' tabled budgets during April and early May 2013 to assess whether the budgets are realistic, sustainable and relevant, and the extent to which they are funded in accordance with the requirements of the MFMA. In this regard, National Treasury will communicate further with the non-delegated municipalities, while the provincial treasuries will communicate with their respective delegated municipalities.

Municipalities are reminded that the Municipal Budget and Reporting Regulations provide not only for the technical framework for municipal budgets but also for minimum requirements in terms of the structure of the budget document, including narratives in support of the budget tables. It has come to the attention of the National Treasury that certain municipalities table their annual budgets (MTREF's) in formats other than that of the prescriptions contained in the MBRR. Tabling and adopting a municipal budget (MTREF) in a format other than that of the MBRR constitutes gross financial negligence on the part of the municipality and is outside the legislative framework.

For all practical purposes, a municipal budget that is tabled and adopted by a municipal council in any other format than the prescriptions of the MBRR does not legally constitute a municipal budget.

As part of the budget compliance and benchmarking processes to be undertaken by both the National Treasury and respective provincial treasuries compliance verification will include:

- Level of compliance to the Municipal Budget and Reporting Regulations;
- Verification of the format in which the 2013/14 MTREF budget was tabled in the municipal council. This will include proof of a council resolution in support of the tabled 2013/14 MTREF budget (Schedule A of the MBRR); and
- Budget document that includes narratives to the prescribed table of content and budget tables covering at least Tables A1 to A10.

8.3 Certification that budget is correctly captured

Once the municipal council has adopted the municipal budget in the format of Schedule A the relevant portions of the budgets reflected in Tables A1 to A10 need to be captured on the municipality's financial system so that the municipality can manage its revenue and expenditure against the adopted budget. It has come to National Treasury's attention that many municipalities do not capture their adopted budgets on their financial system, and even those that do, do not 'lock' the adopted budget – meaning that the budget reflected on the system can be changed at any time without following due process.

To eliminate this bad practice, National Treasury hereby requests the accounting officer of each municipality in terms of the section 74 of the MFMA to provide a signed certificate by no later than 15 July 2013 certifying that:

1. The adopted annual budget has been captured on the municipality's financial system, and that there is complete agreement between the budget on the system and the budget adopted by council;
2. That the adopted annual budget on the municipality's financial system is locked; and
3. That the municipality has in place controls to ensure that the budget captured on the financial system can only be changed in accordance with:
   a. a virement authorised by the municipal manager, or duly delegate official, in terms of a council approved virements policy; and
   b. an Adjustments Budget approved by council.

A template of the certificate is available on National Treasury' website at:

http://mfma.treasury.gov.za/Return_Forms/Pages/default.aspx

9 Budget process and submissions for the 2013/14 MTREF

Over the past number of years there have been significant improvements in municipal budget processes. Municipalities are encouraged to continue their efforts to improve their budget processes based on all previous guidance provided and the Municipal Budget and Reporting Regulations. Municipalities are reminded that the IDP review process and the budget process should be combined into a single process.

9.1 Submitting budget documentation and schedules for 2013/14

To facilitate oversight of compliance with 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 both printed and electronic formats. So if the annual budget is table to council 29 March 2013, the final date of submission of the electronic budget documents is **Tuesday, 2 April 2013**. Hard copies must be received by no later than **Wednesday, 10 April 2013** including a council resolution in support of the tabled budget; and
- Section 24(3) of the MFMA, read together with regulation 20(1), requires that the approved annual budget must be submitted ***within ten working days*** after the council has approved the annual budget. So if the council only approves the annual budget on 30 June 2013, the final date for such a submission is **Friday, 12 July 2013**, otherwise an earlier date applies.

The municipal manager must submit:

- the budget documentation as set out in Schedule A of the Municipal Budget and Reporting Regulations, including the main Tables (A1 - A10) and all the supporting tables (SA1 – SA37) and prescribed minimum narrative information in both printed and electronic format;
- the draft service delivery and budget implementation plan in both printed and electronic format; and
- in the case of approved budgets, the council resolution.

Municipalities are required to send electronic versions to lgdocuments@treasury.gov.za.

In the event that the file size exceeds 4 MB then please send it to lgbigfiles@gmail.com and notify the Local Government Database team via an e-mail (excluding the attachment) that the budget was submitted to the big files account.

Municipalities are required to send printed submissions of their budget documents and council resolution to:

For couriered documents
Ms Linda Kruger
National Treasury
40 Church Square
Pretoria, 0002

For posted documents
Ms Linda Kruger
National Treasury
Private Bag X115
Pretoria, 0001

After receiving tabled budgets, National Treasury and provincial treasuries will complete a compliance checklist. This checklist will indicate the level of compliance to the Municipal Budget and Reporting Regulations. A copy of the checklist will be sent to the municipality in order to facilitate improvements in the quality of tabled and approved budgets. Please review the municipality's performance last year, and ensure that the gaps are addressed.

9.2 Budget reform returns to the Local Government Database for publication

For publication purposes, municipalities are still required to use the Budget Reform Returns to upload budget and monthly expenditure to the National Treasury Local Government Database. *The old formats may not be used to submit 2013/14 budget information*. All municipalities must migrate to using the aligned version of the electronic returns. All returns are to be sent to lgdatabase@treasury.gov.za.

Returns for the 2013/14 budget must be submitted to the Local Government Database by **19 July 2013**.

The new aligned electronic returns may be downloaded from National Treasury's website at the following link: http://mfma.treasury.gov.za/Return_Forms/Pages/default.aspx.

9.3 Publication of budgets on municipal websites

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

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

9.4 Publication of municipal budgets on National Treasuries website

National Treasury publishes all the approved municipal budgets on its website. However, before publishing National Treasury verifies the correctness of the information submitted by municipalities by comparing the following three sources of information:

1. The Approved Budget, which is the municipality's budget in the format of Schedule A as approved by council (hard copy).
2. Schedule A1, which is the electronic version of the budget Tables A1 to A10, and supporting tables.
3. The Database budgets, which is the municipal budget generated from the information the municipality submits in the Budget Reform Returns.

The information in the Schedule A1 and the Database budget returns **MUST** reconcile with the Approved Budget as this is the budget that council has adopted and is therefore the legal basis for all revenue collection and expenditure activities within the municipality.

While only 112 municipalities managed to achieve this reconciliation in the 2011/12 financial year, 149 municipal budgets were aligned in the 2012/13 financial year. Efforts will continue to ensure all municipalities meet requirements and further improve the quality of budget information.

This process of ensuring these three sources of budget information reconcile is referred to as the Budget Verification Process. Municipalities must ensure that all these three sources of information are aligned upon finalising their budgets, and when submitting their budget information to the National Treasury and provincial treasuries. The National Treasury and provincial treasuries will again check for this alignment before publishing the municipal budgets in October 2013.

Contact

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Post	Private Bag X115, Pretoria 0001
Phone	012 315 5009
Fax	012 395 6553
Website	http://mfma.treasury.gov.za/Pages/Default.aspx

JH Hattingh
Chief Director: Local Government Budget Analysis
12 March 2013

Annexure A – Changes to Schedule A1

As noted above, National Treasury has released Version 2.5 of Schedule A1 (the Excel Formats). It incorporates the following changes:

No.	Sheet	Amendment	Reason
1	SA8	Insertion of quantum of water and electricity losses.	Simplification of data gathering for mid-year assessment purposes.
2	SA22, SA23, SA24	Insertion of new footnote.	To clearly state that the personnel figures captured in the budget are only valid at the adoption date of the budget.
3	SA24	Insertion of new footnote.	To clarify that headcount figures must include budgeted vacancies and current staff in order to improve alignment of figures with the municipal organogram.
4	SA13	SA 13 has been split into two separate sheets – SA13a – Service Tariffs by Category SA13b – Service Tariffs by Category (explanatory).	To facilitate the collection of consistent information on municipal tariff structures.

Annexure B – Appropriation Statement (Reconciliation: Budget and in-year performance)

Reconciliation of Table A1 Budget Summary

Description	2012/2013											2011/2012			
R thousands	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved by law)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Financial Performance															
Property rates			–			–									
Service charges			–			–									
Investment revenue			–			–									
Transfers recognised - operational			–			–									
Other own revenue			–			–									
Total Revenue (excluding capital transfers and contributions)															
Employee costs			–			–									
Remuneration of councillors			–			–									
Debt impairment			–			–									
Depreciation & asset impairment			–			–									
Finance charges			–			–									
Materials and bulk purchases			–			–									
Transfers and grants			–			–									
Other expenditure			–			–									
Total Expenditure															
Surplus/(Deficit)															
Transfers recognised - capital			–			–									
Contributions recognised - capital & contributed assets			–			–									
Surplus/(Deficit) after capital transfers & contributions															
Share of surplus/ (deficit) of associate			–			–									
Surplus/(Deficit) for the year															
Capital expenditure & funds sources															
Capital expenditure															
Transfers recognised - capital			–			–									
Public contributions & donations			–			–									
Borrowing			–			–									
Internally generated funds			–			–									
Total sources of capital funds															
Cash flows															
Net cash from (used) operating			–			–									
Net cash from (used) investing			–			–									
Net cash from (used) financing			–			–									
Cash/cash equivalents at the year end															