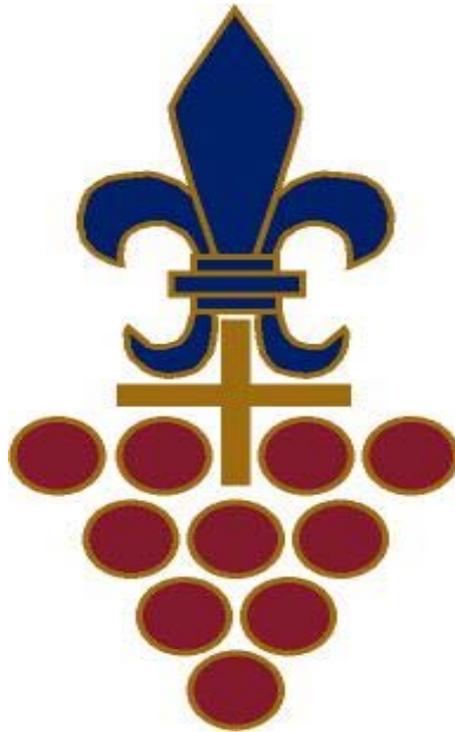


STELLENBOSCH MUNICIPALITY



MFMA Circular No.32

**MUNICIPAL BUDGET CIRCULAR FOR
THE 2021/2022 MTREF –
4 DECEMBER 2020**



Municipal Budget Circular for the 2021/22 MTREF

CONTENTS

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

Introduction

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

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

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

1. The South African economy and inflation targets

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

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

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

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

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

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

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

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

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

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

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

Table 1: Macroeconomic performance and projections, 2016 - 2020

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

Source: Medium Term Budget Policy Statement 2020.

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

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

2.1 Local government conditional grants allocations

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

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

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

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

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

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

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

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

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

Reductions to municipal conditional grants

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

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

Additional instruments to finance infrastructure in municipalities

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

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

3. 2021 Local Government Elections and the budget process

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

The following four risks need to be explicitly managed:

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

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

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

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

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

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

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

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

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

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

4.1 Release of Version 6.5 of the Chart

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

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

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

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

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

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

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

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

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

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

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

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

4.3 Revised Municipal Property Rates Act Categories

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

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

4.4 Forbidden activities

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

4.5 Independent Audits on Municipal Financial Systems

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

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

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

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

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

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

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

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

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

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

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

4.7 Non-compliance with *mSCOA* requirements

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

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

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

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

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

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

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

4.9 Cash flow reconciliation

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

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

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

4.10 *m*SCOA Calendar for 2021/22

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

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

	National School of Governance	
5.	Issue proposed <i>m</i> SCOA chart changes for version 6.6	October 2021
6.	Annual <i>m</i> SCOA CIGFARO Budgeting Workshop	November 2021
7.	Issuing of transversal contract for provision of financial systems	March 2022

5. The revenue budget

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

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

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

5.1 Maximising the revenue generation of the municipal revenue base

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

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

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

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

5.2 Setting cost-reflective tariffs

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

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

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

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

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

5.3 Bulk Account Payments - Eskom Concessions

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

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

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

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

5.4 Timeous allocations and clearing of the control accounts

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

5.5 Eskom Bulk Tariff increases

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

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

6. Funding choices and management issues

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

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

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

6.1 Employee related costs

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

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

6.2 Remuneration of councillors

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

7. Conditional Grant Transfers to Municipalities

7.1 Non-compliance of in-year monitoring

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

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

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

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

8. The Municipal Budget and Reporting Regulations

8.1 Ensuring municipal sustainability through a funded budget

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

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

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

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

8.2 Budgeting for indirect grant allocations

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

8.3 Monthly reporting of debtors

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

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

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

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

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

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

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

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

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

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

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

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

8.5 Assistance with the compilation of budgets

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

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

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

8.6 Assessing the 2021/22 MTREF budget

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9.2 Expected submissions for 2021/22 MTREF

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

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

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

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

Any problems experienced with the submission of documents can be addressed with Elsabe Rossouw at Elsabe.Rossouw@treasury.gov.za.

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

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

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

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

9.3 Publication of budgets on municipal websites

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

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

9.4 Communication by municipal entities to National Treasury

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

Contact



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Post Private Bag X115, Pretoria 0001
Phone 012 315 5009
Fax 012 395 6553
Website <http://www.treasury.gov.za/default.aspx>

JH Hattingh
Chief Director: Local Government Budget Analysis
04 December 2020