

Council Meeting 31 March 2022

Report of the Executive Mayor

A-48 REPORT ON THE DRAFT ANNUAL MTREF BUDGET REPORT FOR 2022/2025

1. PURPOSE

- 1.1 The purpose of the report is to table the preliminary outcome of the 2022/2025 draft Medium Term Revenue and Expenditure Framework (MTREF) budget before the Mayoral committee. The report is submitted to inform, to discuss and to direct the way forward for implementation by the Budget steering committee who need to meet in April 2022, as to prepare for the final Budget to be tabled before or on 31 May 2022

2. BACKGROUND

- 2.1 In terms of Local Government Municipal Finance Management act 56 of 2003, section 16

(1) *The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.*

(2) *In order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.*

- 2.2 It is further prescribed in the Local Government Municipal Finance Management act 56 of 2003, section 22 that:

(2) *When preparing the annual budget, the mayor of a municipality must:*

(a) *Consider the municipality's integrated development plan; and take all reasonable steps to ensure that the municipality revise the integrated development plan (IDP) in terms of section 34 of the Municipal Systems Act, considering realistic revenue and expenditure projections.*

3) A-649 COUNCIL RESOLUTION: ANNUAL MTREF BUDGET REPORT FOR 2021/2024

RESOLVED AS FOLLOWS:

1. That the contents of Circular 108 and the principles suggested within the funded 2021/22 MTREF budget report attached included in the report **BE CONSIDERED** as presented.
2. That **it BE NOTED** that the operational and capital budget as reflected in table A7: cash flow per Annexure is funded.
3. That the Financial Recovery Plan **BE REVIEWED, COSTED** and **BE SUBMITTED** with the unfunded Table A8 that allude to the available cash and cash equivalents, Payment of Trade and payables, provisions, and unspent grants to be covered over a long-term period to **BE DETERMINED**

- ... that the budget related policies regarding operating and capital expenditure **BE CONSIDERED** for inclusion in the final budget report **TABLED** in May 2021
5. That it **BE NOTED** that the latest draft valuation roll for 2021/2025 be noted and implemented with effect from 1st July 2021,
 6. That the maximum increase for property rates **BE DETERMINED** at 4% based on the new market value for 2021/2022 payable on each new category as per the amended Property rates act.
 7. That it **BE NOTED** that it is suggested that the current revenue forgone of allowing owners not to pay assessment rates for the first R 55 000 of the property value plus a 15% discount **BE PHASED out** from the 1 July 2022 at a rate of a lesser subsidy of 5% per year **for** property owners who is not registered indigents.
 - This suggestion in 4.2.2 need to be discussed in the proposed Budget steering committee meeting that need to ensure that the budget is funded after proper calculations regarding the draft valuation roll to be received on the 31 March 2021 was submitted.
 - That the suggested removal of any revenue forgone be subject to the increased market value to be absorbed by the community as well as the effect of the outcome of the nine (9) new categories as contemplated by the MPRA act section 8 which is to be implemented from the 1 July 2021.
 - Recalculation of property rates as per the suggested categories can lead to a lower income to be expected. See item regarding the property rates policy that will have to be redesigned to align with the MPRA.
 - That the market value not taxable for registered indigent threshold regarding property, that was introduced on the 1 July 2020 in the amount of R 70 000 per stand (R 15000 impermissible plus R55 000 additional) **BE RECONFIRMED** to **BE APPLICABLE** in 2021/2022 as well as this is the then valuation for an RDP house as per the Council's then appointed Valuer.
 8. *That the 2021/22 draft tariffs as attached **CONSIDERED** and **APPROVED** by Council before or 31 May 2021. That the tariffs be published 30 days before 30 June 2021 as for implementation from 1 July 2021. That electricity tariffs be subject to NERSA approval and that it **BE NOTED** that it is subjected to change*
 - 8.1 Property rates: 4%
 - 8.2 Electricity: 16% (Subject to NERSA Approval)
 - 8.3 Water: 6%

- 8.4 Wastewater management (Sewerage) and waste management (Refuse) 6 %
- 8.5 All other income –general increase of 6%.
- 8.6 Flat rate to **BE DETERMINED** for those consumers which areas are not metered for water and or are receiving services for example wastewater management (sewerage services) as well as for the collection of refuse (waste management services)
- 8.7 That the sewerage tariff **BE RECONSIDERED AND BE REVISED** against 60% of metered water consumed and **BE CHARGED** and not on a residential households set of toilets which is currently the case.
9. That it **BE NOTED** that the Operational expenditure was determined as follows:
- a) **Salary increases** and the increase for the remuneration of Councillors were budgeted at a rate of 4,5% in the absence of negotiated conditions of service as agreements have lapsed to exist on 30 June 2020, **subject thereto** the 2021/2022 budget is credible, realistic as anticipated in section 18 and that all internal funded capital projects are determined to **BE FUNDED**.
 - b) That the increase is subject to the negotiations and that if a lower than 4, 5% be implemented that the municipality will abide. That in the case of a higher than 4,5% exemption be sought as the budget is barely funded for operational purposes.
 - c) That it **BE NOTED** that a 4, 5% salary increase is incorporated for the Municipal manager and Directors (Section 56 and 57 managers). That it is subject to Council determination.
 - d) That it be noted that the matter of provision for overtime and standby **WERE REDUCED by 50%** during deliberations by the administration. That it was agreed that consequence management be implemented in the case of unauthorised expenditure **BE INCURRED**
 - e) That policy **BE WRITTEN** in continuous reduction of overtime and that only those identified as critical positions be remunerated for additional service.
 - i) That departments and sections or units **BE IDENTIFIED** that will not be allowed to work overtime over weekends.
 - ii) That where possible shift systems without the payment of overtime and rather time off **BE INTRODUCED**.
 - f) **All other operational expenditure** was based on the forecasted CPI as per the MFMA Circular 108 at a rate of 3,3%
 - g) Those existing vacancies, if found to be critical and budgeted for, especially in the case of vacant general labourers **BE FILLED** To reduce overtime payments.

acting allowances must **BE LIMITED**. Payment of acting allowances to junior staff acting in their immediate senior's position whilst the Director or another capable manager could hold the fort, whilst the incumbent is off sick or on vacation should **BE STOPPED WITH IMMEDIATE EFFECT**. No such appointments of unnecessary acting positions **BE ALLOWED**.

10. That the general cost containment regulations (Government gazette 42514 dated 7 July 2019, as amended on the 31 July 2019, and explained per MFMA circular 97) **BE STRICTLY** enforced and that catering **BE CONTROLLED** by the Accounting officer's office not to supply food and drink for a meeting less than five (5) hours.
11. That in relation to revenue enhancement actions a data collection form **BE DEVELOPED, BE SUBMITTED, BE RECOVERED** from the stand or erf owner and that all departments as well as ward committee members within the municipality jurisdiction to participate in the collection of information from business, industrial and residential owners and to capture such crucial information as to **BE ABLE** to cleanse the data and send consumer agreements per email, if possible.
12. That Council **APPROVED** the **Fraud Prevention Strategy** in line with the implementation of the Budget
13. That Council **APPROVED** the 2021/22 to 2023/24 MTREF with the following Budget related policies and accompanied by-laws.
 - a) Tariff policy
 - b) Property rates policy
 - c) Creditor's control and debt collection policy
 - d) *Cash management and investment policy*
 - e) *Asset management policy*
 - f) *Budget policy*
 - g) Writing off bad debts, advance payments, and impairment of debtor's policy
 - h) Indigent policy
 - i) Petty cash policy
 - j) Supply chain management policy

4. **DISCUSSION**

4.1 **Objectives of the Msukaligwa municipality budget**

- The administration of the municipality has a vision to improve the basic services and delivery thereof by means of creating a sustainable, credible, and realistic operational and capital budget
- The municipality is currently driving processes and actions that need to improve the sustainability by means of a financial recovery plan, a five-year budget plan approved in October 2021 and departmental action plans as to be able to carry out basic day to day functions.
- To improve as a major departure, point and focus in 2022 /2023 the improvement of revenue collection and revenue billing, to ensure that the municipality will have sufficient funds to improve the lives of its community members.

- To focus on the communities' concerns raised during the IDP strategic meetings and to align the budget regarding implement that of which is listed as highest priority.
- To ensure clean potable water, reduction of electricity breakdown in service, reduction of potholes, clean town and parks and cemeteries, streetlights to light the town to safeguard and reduce criminal activities
- To be able to replace outdated and aged water and electricity infrastructure
- To implement a five (5) year asset maintenance plan, providing sufficient funds as to maintain roads, buildings, and vehicles as to ensure that the community can use service to its fullest.

4.2 MFMA Budget circulars to consider

Guidance on compilation of the 2022/2023 MTREF is derived from the MFMA circulars number 86, 89, 91, 93 and 94 ,108 and the latest 115 issued 4 March 2022. (See MFMA circular 115 attached as Annexure A).

The circular give directions to municipalities on preparing the budget. The purpose of circulars is to guide municipalities with their compilation of the 2022/2025 Medium Term Revenue and Expenditure Framework (MTREF).

These circulars are linked to the Municipal Budget and Reporting Regulations (MBRR); and strive to support municipalities' budget preparation processes so that the minimum requirements of the MBRR are achieved within the current economic climate.

4.2.1 The main matters within the attached circular to be consider are follows:

4.2.1 MFMA Circular 115, refers.

4.2.1.1 The South African economy and inflation targets

The world economy is expected to grow by 4.4 per cent this year. This is lower than the 4.9 per cent that was anticipated when tabling the medium-term budget policy statement (MTBPS).

The Omicron variant of the coronavirus caused many countries to impose restrictions to manage its spread. In addition, continued imbalances in global value chains have limited the pace of the world's economic recovery.

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

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

Also, violent unrest in July, and restrictions imposed to manage the third wave of COVID-19 further eroded the gains South Africa made in the first half of the year. Industrial action in the manufacturing sector, and the re-emergence of load shedding, also slowed the pace of the recovery.

Real Gross Domestic Product (GDP) growth of 2.1 per cent is projected for 2022. Over the next three years, GDP growth is expected to average 1.8 per cent. Headline inflation is expected to remain between 3 to 6 per cent target ranges over the 2022/23 MTEF. In summary, the tax revenue in 2021/22 was higher than projections and this was mainly due to commodity price rally. However, these are projected to be short term, and as such long-term spending commitments should not be made based on short term revenue benefits. There are measures in place to reduce expenditure to narrow the budget deficit.

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

Table 1: Macroeconomic performance and projections, 2020 - 2025

Fiscal year	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
Actual Estimate Forecast CPI Inflation	2.9%	4.5%	4.8%	4.4%	4.5%

4.2.1.2 Key focus areas for the 2022/23 budget process

- Local government conditional grants allocations
- Division of Revenue Bill, 2022: changes to local government allocations
- Changes to gazetted frameworks and allocations
 - ✓ Infrastructure Skills Development Grant (ISDG) – The grant framework for the infrastructure skills development grant is amended to include a condition that municipalities must have a capacitated Project Management Units with qualified people to act as supervisors in terms of the relevant statutory council requirements.
 - ✓ Municipal Infrastructure Grant (MIG) – Over the 2022 MTEF, the Department of Cooperative Governance (DCoG) will introduce an indirect component to the MIG. This is to improve efficiency in grant expenditure to develop more and better-quality infrastructure. The conversion will be done in-year. The criteria as determined by DCoG includes indicators related to expenditure and reliability of infrastructure.
 - ✓ Municipal Systems Improvement Grant – Over the MTEF, a portion of the grant will be utilised to continue to support institutionalisation of the district development model.
 - ✓ Municipal Disaster Relief Grant – The name of the Municipal Disaster Relief Grant is changed to the Municipal Disaster Response Grant. The objective of the grant remains the same and the change aligns to existing National Disaster Management Centre (NDMC) processes in responding to disasters that have occurred.
 - ✓ Local Government Financial Management (FMG) Grant – Over the 2022 MTEF, the grant framework for the FMG will make provision for the preparation of asset registers

4.2.1.3 IDP Consultation Process Post 2021 Local Government Elections

Municipalities are advised to refer to the guidance (refer to the email sent by the Department of Cooperative Governance and Traditional Affairs (CoGTA) to all municipalities on 20 October 2021) provided through the joint South African Local Government Association (SALGA)/ Department of Cooperative Governance (DCoG) and National Treasury (NT) Joint Circular No.1 on the transitional measures in relation to the integrated development plan (IDP) consultation process.

This circular indicates that the previous municipal councils had an obligation to ensure that the legislative stipulations were complied with. Therefore, they were expected to continue the process of the development of the IDP starting with the development and adoption of the process plans as provided for in section 28 of the Municipal Systems Act, Municipalities unable to pass the annual budget after 1 July

4.2.1.4 Municipalities unable to pass the annual budget after 1 July

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

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

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

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

In the event the Municipal Council fails to approve a budget due to walk out or individual misconduct by most councillors, the Speaker must immediately investigate the conduct of those identified councillors in terms of the Code of Conduct for councillors as provided for in the Municipal Systems Act, 2000. If in terms of the assessment by the provincial executive council of the tabled budget, it is found that there are no justifiable grounds for not approving the budget, the former must submit/present the outcome of the assessment to the Municipal Council with a directive to consider the assessment and adopt the budget.

If the assessment of the provincial executive council of the tabled budget finds that it does not adhere to the required norms and standards, the directive from the provincial executive council should instruct the council to first amend the budget to remedy this before adopting the budget. The provincial executive council must, if necessary, give the municipal council a further 14 days to approve a tabled budget that complies with norms and standards and incorporates the outcome of public participation, failing which the provincial executive council must consider dissolution of municipal council, approval of a temporary budget and appointment of an administrator as a last resort

Important extractions of previous budget circulars that need to be reconsidered:

- 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 promulgated on 30 May 2014.
- Addressing unfunded budgets in local government this strategy is based on an analysis of performance failures in governance, financial management, institutional capabilities, and service delivery. As part of this strategy, municipalities must ensure that their budgets are adequately funded
- **Revenue budget:** 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 to service their debt obligations.

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 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**

- **Setting cost reflective tariffs:** Cost reflective tariff setting is a requirement of Section 74(2) of the Municipal Systems Act, 2000 (Act No.32 of 2000) which states that tariffs must "*reflect the costs reasonably associated with rendering the service*".

This is meant to assist municipalities to generate sufficient revenue to fully recover their costs, deliver services to customers sustainably and invest in infrastructure that promotes local economic development.

- **The starting point for sound tariff setting is 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 to sustainably provide services. **If the budget is not credible then tariffs will not result in financial sustainability even if they are set using a sound methodology.**

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

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

Before embarking on the tariff setting process, a municipality must assess its budget to determine its efficiency and effectiveness.

Ideally, a budget should be zero-based, at least periodically. This would typically require an assessment of what infrastructure is in place and what is needed to operate and maintain this infrastructure.

Non-technical losses refer to losses due to theft or to metering inaccuracies. In these cases, there is no physical loss of water or electricity: someone is using the water or electricity and simply not paying for it.

Reducing non-technical losses will have no effect on the cost of supplying a service but it will influence the volumes sold. Since the tariff is calculated as the revenue required divided by the volume sold, increasing the volume sold will reduce the tariff required.

Reducing technical losses will thus reduce the tariffs required because the cost of supplying the service will be reduced. Reducing non-technical losses will reduce the tariffs required because the volumes sold will be increased.

- **Tariff policy:** Section 75A of MSA empowers municipalities to "levy and recover fees, charges or tariffs in respect of any function or service of the municipality". Municipalities must also adopt and implement a tariff policy on the levying of fees for municipal services in terms of section 74 of the Systems Act. Approval for surcharges is done by the municipality in terms of section 75A of the Systems Act but subject to the norms and standards prescribed by the Minister of Finance in terms of the MFPFA.

The Minister of Finance has not yet prescribed the norms and standards (the power to prescribe is discretionary). The absence of norms and standards does not prevent municipalities from including surcharges in their tariffs as the power to impose a surcharge is given in the Municipal Systems Act. The collective tariff must be approved by the municipal council and published for public comments in terms of section 75A of the Municipal Systems Act (MSA). It must also be subjected to the prescribed budget processes in terms of the MFMA

- **Funding choices and Budgeting issues**

The ability of customers to pay for services is declining and this means that less revenue will be collected.

Therefore, municipalities must consider the following when compiling their 2022//23 MTREF budgets:

- Improving the effectiveness of revenue management processes and procedures.
- Paying special attention to cost containment measures by, amongst other things, controlling unnecessary spending on nice-to-have items and non-essential activities as per the Cost Containment Regulations that was issued on 07 June 2019.
- Ensuring value for money through the procurement process.
- The affordability of providing free basic services to all households; and
- Curbing consumption of water and electricity by the indigents to ensure that they do not exceed their allocation.

- **Expenditure spending:** ***Municipalities must ensure that expenditure is limited to the maximum revenue collected and not spend on money that they do not have.***

Municipalities must apply the budgeted assumed collection rate to determine the cash flow budgets.

Therefore, expenditure can only be processed against items with funding in line with the anticipated cash inflow and not billing.

Municipalities should therefore identify the relevant source in the funding segment where revenue is received from and identify the funds to be used when payments are made. Guidance on this was provided in MFMA Circular No. 98.

- **Bulk electricity tariffs (Par 6.8 of circular 115)**

The National Energy Regulator of South Africa (NERSA) is responsible for price determination of the bulk costs for electricity. Bulk electricity costs are consistently much higher than inflation, having gone as high as 17.8 per cent in the 2021/22 municipal financial year. Eskom's need for increased funding means that over the period ahead they are applying for much higher tariff increases. In their Multi-Year Price Determination (MYPD 5) application

Eskom requested approval for municipal bulk tariff increases of 20.5 per cent in 2022/23, 15 per cent in 2023/24 and 10 per cent in 2024/25. NERSA rejected this revenue application at the end of September 2021 and in October 2021 ESKOM filed an application in the High Court to review NERSA's decision.

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

- **Employee related costs: (par 7, circular 115)**

The Salary and Wage Collective Agreement for the period 01 July 2021 to 30 June 2024 dated 15 September 2021 through the agreement that was approved by the Bargaining Committee of the Central Council in terms of Clause 17.3 of the Constitution should be used when budgeting for employee related costs for the 2022/23 MTREF.

In terms of the agreement, all employees covered by this agreement shall receive with effect from 01 July 2022 and 01 July 2023 an increase based on the projected average CPI percentages for 2022 and 2023.

The forecasts of the Reserve Bank, in terms of the January 2022 and January 2023, shall be used to determine the projected average CPI. Municipalities are encouraged to perform an annual head count and payroll verification process by undertaking a once-a-year manual salary disbursement, to root out ghost employees.

(The Reserve bank CPI for January 2022 as per Google reference is 5,7%)

- **Remuneration of Councillors (par 7.2 Circular 115)**

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 consider the fiscal constraints. Municipalities should also consider guidance provided above on salary increases for municipal officials during this process.

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

(A provision equal to that of the municipal staff were made at a rate of 5,7% in the draft budget contained in table A4: Statement of performance)

- **Equitable Share allocation (par 7.3 Circular 115)**

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

5. EXECUTIVE SUMMARY

5.1 Cash flow: Status update: 28 February 2022

Before the 2022/23 MTREF draft budget can be considered it is suggested that the available cash flow be studied at the end of February 2022.

In the section 71 financial report submitted by the Budget office for February 2002 the outcome of the variable cash flow are follows

Reconciliation: Bank balances: Cash flow as of 28 February 2022:

FNB Current (Primary account)	R 2 610 767
FNB Current account: License department	R 1 996 434
FNB Call account	<u>R 57 768 369</u>
Total	<u>R 62 375 570</u>
Minus: Unspent capital grants	(R 57 901 253)
Minus: Unspent operational grants	(R 1 661 992)
Minus: License fees payable: Provincial	<u>(R 1 996 434)</u>
Available: Operational	<u>R 815 891</u>

5.2 The status of the 2022/2023 preliminary -draft budget workings regarding operational -as well as capital revenue and expenditure to be reworked are as follows

	Billed/Direct (Table A 4)	Cash budget (Table A 7)
• Operational revenue : million	R 910,458 million	R 813,681
• Operational expenditure : million)	(R <u>1,359 billion</u>)	(R <u>972,478</u>)
• Operational deficit :	(R <u>449,329million</u>)	
Cash shortfall operational million)		(R 155,804
• Capital grant funding :	R 292,052 million	
• Capital expenditure: Grant :	(R 302,528 <u>million</u>)	
Cash shortfall internal capital funding million)		(R <u>10,476</u>
Total Cash shortfall: 2022/2023: Draft Budget million		<u>R 166,280</u>

5.3 Table A 7: To be cash backed

As can be seen from the undermentioned draft cash flow with consideration of operational and capital revenue (grants), Operation expenditure and capital grant spending that the draft budget is already have a cash deficit of R 166,729

This table must have a reasonable cash surplus, meaning that the operational and capital spending must be cash backed.

Description	Ref	2018/19	2019/20	2020/21	Budget Year 2021/22				2022/23
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Medium Term Revenue & Budget Year 2022/23
CASH FLOW FROM OPERATING ACTIVITIES									
Receipts									
Property rates				130 519		(14 409)	(14 409)	92 239	133 664
Service charges				601 029		9 357	9 357	247 948	334 679
Other revenue				243 671		(107 254)	(107 254)	147 266	122 669
Transfers and Subsidies - Operational	1					(2 202)	(2 202)	172 181	224 189
Transfers and Subsidies - Capital	1							72 537	292 052
Interest				949				33	330
Dividends									
Payments									
Suppliers and employees									
Finance charges				(713 216)		133 952	133 952	(607 837)	(938 907)
Transfers and Grants	1					(29 900)	(29 900)		(33 540)
NET CASH FROM/(USED) OPERATING ACTIVITIES				251 747		(10 456)	(10 456)	94 365	135 296
CASH FLOWS FROM INVESTING ACTIVITIES									
Receipts									
Proceeds on disposal of PPE									
Decrease (increase) in non-current receivables		(162)	162	(1 824)		953	953	953	953
Decrease (increase) in non-current investments									
Payments									
Capital assets									
NET CASH FROM/(USED) INVESTING ACTIVITIES		(162)	162	(3 442)		6 538	6 538	(129 280)	(302 528)
CASH FLOWS FROM FINANCING ACTIVITIES									
Receipts									
Short term loans									
Borrowing long term/financing									
Increase (decrease) in consumer deposits				20					
Payments									
Repayment of borrowing		(16 120)	3 357	(1 150)	(3 511)	13 923	13 923	(394)	
NET CASH FROM/(USED) FINANCING ACTIVITIES		(16 120)	3 357	(1 139)	(3 511)	13 923	13 923	(394)	
NET INCREASE/ (DECREASE) IN CASH HELD		(16 282)	3 519	245 341	(3 511)	10 958	10 958	(34 357)	
Cash/cash equivalents at the year begin	2	(53 968)	24 780	22 016	70 001	7 861	7 861		(166 279)
Cash/cash equivalents at the year end	2	(70 270)	28 299	267 357	66 490	18 819	18 819	(34 357)	(166 279)

5.4 Table A8: Cash backed reserves and accumulated surplus

This table is the deciding factor when explaining if a budget is funded or not funded: From the undermentioned the budget is unfunded in the amount of R 1,604 billion. A five-year operational plan was drafted in October 2021, approved by Council but will need to be reviewed by the incoming Council, after election as to reconfirm the plan

- Eskom, DWS and the Department of safety and security is the main creditors that need to be serviced and payment plans approved must be honoured
- The matter of the dispute with the Department of water and sanitation must be resolved as this dispute is 8 years or more and give a wrong impression when creditors are reviewed.

Description	Ref	2018/19	2019/20	2020/21	Budget Year 2021/22				2022/23 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2022/23	Budget Year +1 2022/23	Budget Year +2 2023/24
Cash and investments available											
Cash/cash equivalents at the year end	1	(70 270)	28 299	267 357	66 490	18 819	18 819	(34 357)	(166 279)	(376 175)	(345 765)
Other current investments > 90 days		94 604	(8 274)	969 294	(43 657)	(9 546)	(9 546)	143 668		217 392	172 443
Non-current assets - investments	1										
Cash and investments available:		24 534	22 025	1 236 651	22 832	9 273	9 273	109 311	(166 279)	(158 784)	(173 322)
Application of cash and investments											
Unspent conditional transfers		73 811	16 697	1 741	88 241	2 917	2 917	89 676	700	76 251	700
Unspent borrowing											
Statutory requirements	2										
Other working capital requirements	3	852 721	1 216 157	376 485	889 755	1 657 529	1 657 529	755 980	1 437 475	910 828	1 584 420
Other provisions											
Long term investments committed	4										
Reserves to be backed by cash/investments	5	724	724								
Total Application of cash and investments:		927 256	1 232 578	378 225	977 995	1 660 446	1 660 446	825 657	1 438 175	987 079	1 585 120
Surplus/(shortfall)		(602 722)	(1 210 553)	858 426	(955 363)	(1 651 173)	(1 651 173)	(716 346)	(1 604 454)	(1 145 863)	(1 758 443)

Notes:

- National Treasury demand that table A7: Cash flow must have positive outcome.
- Table A8: Cash reconciliation: Cash reserves and accumulated surplus can be unfunded only if a 5-year budget plan to be reviewed by National treasury is approved. Such a plan was approved by Council in October 2021 and will be applicable for 2022/203 as a well.

- The average collection rate projected for 2023/2024 is budgeted at an average rate of 64% of billed revenue for property rates and services.
- The municipality need to step up on the task of generating credible consumer accounts, strict credit control and debt collection. The additional revenue that can be generated, after all even is to be metered is not yet included.
- The known list of +/- 7000 households which possibly tampered and/or is guilty of theft of electricity services must receive serious attention as the non-technical distribution losses need to be attended to.

6. Principal decisions that are suggested by management:

To be considered and be included in the recommendation of the budget steering committee to Council when submitted in May 2022.

- 6.1 Cash based spending:** That the principal not to spend on the approved available budget but that spending be concluded per the available cash as requested, be enforced.
- 6.2 That a fixed amount to offset creditors, before operating expenses be incurred, be determined** by the cash flow committee, and not be deviated of. Eskom payments must include current accounts and the honouring of the payment plan before any operational orders can be issued. That the aim will be to reduce the creditors as soon as possible to loosen cash flow for future operational purposes.
- 6.3 That a procurement plan be determined** from the start of the financial year and that spending of the operational and internal funded capital budget be spread evenly over the period of 12 months, controlled by the Directors and the Finance department as a team effort.
- 6.4 The principle that we do not spend what we do not have to be applied.**
- 6.5 That expenditure orders to be issued, in the process of cash flow control,** be prioritised to serve income generating departments and emergency services (Fire department) in the quest to ensure basic service delivery, until such time that the cash flow stabilise. That the Finance department will ensure control on orders issued.
- 6.5.1** That **no new appointments of staff** of any kind be make, if not budgeted for.
- 6.5.2** That **no expenditure be approved and be implemented** by the administration (Accounting officer), committees or Council if financial comments, referring to an approved budget for the allowance or service or supply of material were not included in an approved budget
- 6.5.3** That to compile a **credible, realistically anticipated revenue budget**, as enacted per section 18 of the MFMA (Act 56 of 2003), that the collection rate of 64% be accepted to be the norm in calculating a funded budget and that the notion to increase the collection rate to ensure that the budget be set aside.
- 6.5.4 Revenue forgone in reference to property rates to be reconsidered:**

➤ **Indigents:**

In term of the MPRA the impermissible rate is not charged on the value of the first R 15 000

Property rates based on a discount value for 11 383 indigents, that is supposed to be registered indigents (RDP houses) were increased in the amount to R 70 000 (of which revenue forgone is based on R 55 000 from the 1 July 2020). The discount of indigent levies is covered by the equitable share.

The current shortcoming regarding indigents is that only +-6 635 (57,28%) are truly registered whilst the rest of the community to be classified as indigent is abstaining to do so. This could jeopardise future allocations to be received from National treasury determined by the Division of revenue act.

It should be noted that these 11 583 indigents indirectly do receive basic services but because they are not registered the allocation cannot be given as received from the equitable share, which place a burden on the municipality.

It is suggested that no further adjustments to the current R 70 000 per stand per registered indigent household rebate (Revenue forgone above impermissible rate of R 15 000 market value) be made as the municipality will not be able to subsidise further on the property rates

➤ **Residential and Agricultural owners:**

Council took the following resolution in May 2021

Extraction: Council resolution A 649 (LM 999/05/2021): Item 7

“That it **BE NOTED** that it is suggested that the current revenue forgone of allowing owners not to pay assessment rates for the first R 55 000 of the property value plus a 15% discount **BE PHASED out** from the 1 July 2022 at a rate of a lesser subsidy of 5% per year **for** property owners who is not registered indigents “

It is suggested that the first R 55 000 rebate of all residential properties taxed be maintained but that current 15% discount that is applicable for residential be decreased to 10% discount from the 1 July 2022 as per Council resolution.

That the 10% discount for agricultural properties be maintained.

That a phased-out approach for the next 4 years to come be implemented where the “revenue forgone discount of 15% (this year 10% be reduced with 5% per year until such time that the loss of revenue that could have been billed to finance the operational budget is recovered.

A suggested 5% increase in revenue on top of the lesser 5% discount per market value increase is included in the estimated budget (effectively the increase in property rates is 10%)

- 6.5.5 Revenue enhancement:** Electricity and water meters to be installed where services rendered are not measured and damaged meters to be replaced need to receive urgent attention as to enhance Revenue:

That **the task of meter audit**, the replacement of water and electricity meters where nil or very little consumptions are recorded be undertaken by the technical department and that meters be replaced.

That the matter of 7000 plus stands where prepaid is installed but where no consumption is registered be included in the meter audit as to ensure that revenue is improved.

That meters be read as a matter of urgency as to correct the estimated readings that has caused incorrect accounts rendered to the community

- 6.5.6 Bulk Sms and emails:** That all departments and ward councillors be included in the drive to improve data on the financial system.

That a data collection form be developed, be submitted, be recovered from the stand/erf owner and all the different departments be requested to visit business and households (ward councillors), or to assist in phoning to update personal data for example ID numbers (copy to be submitted), cell phone numbers, emails, car registration numbers etc. to ensure that the account on the system is verified.

- 6.5.7** That the operating and capital **budget should be drawn in such away, moving forward, that a cash Surplus (cash backed) be realised** to ensure that creditors of prior years and the building of cash backed reserves be instituted.

- 6.5.8 The Bulk purchases for electricity is budgeted at 10 %**

- 6.5.9 The Bulk purchase for water, in absence of any directive was fixed at 10%**

- 6.5.10** To take note that no new **critical positions to be identified were included yet.**

... already not cash backed, or unfunded budget suggest, that because the municipality has reached the 34,8% employee related cost ration based on cash flow, that no additional positions should be considered if a cash backed operational budget cannot be achieved before the 31 May 2022.

6.5.12 That the matter of **Overtime** in the amount of R 24,556 million and **Standby** of R 11,324 million be considered. That the Budget steering committee to meet in April 2022 to take serious action in suggesting alternative means as the municipality cash flow need to be protected

6.5.13 **That it be considered to stop all overtime over weekends** except for electricity, water, and the Fire department, controlled by the Directors to preapprove such when it is to be incurred. In the case of cemeteries that no council spades or other relevant tools be given to private parties but that the private sector be encourages to supply the families with such tools. Currently staff is paid overtime just to assist in the support of Council tools of trade.

6.5.14 **Appointment of staff within existing vacancies:** That in the case where existing positions (from July 2019) became vacant for whatever reason that those positions be filled, especially in the case of general assistants, especially in the income generating departments or sections. That the municipal manager has a right to freeze a position that is not critical until such time that funds will be available. This suggestion is to curb overtime.

6.5.15 **Acting allowances must be limited:** paying acting allowances to junior staff acting in their immediate senior's position whilst the Director or another capable manager could hold the ford, whilst the incumbent is off sick or on vacation should be stopped. This could reduce expenditure dramatically.

6.5.16 That **internal capital funded budget requests be set aside except for the acquiring of water and electricity meters which can enhance revenue collection. That no funds be allocated to any request if the basic operational budget is not cash backed.**

6.5.17 **Reduction in security services costs need a review.** Budget R 26,961 million

Per Council resolution A 441 dated 28 May 2020, just before a "new tender was invited, the budget was reduced from R 23 million to R 15, 8 million. Again, as in the case of overtime and standby, the administration allowed normal continuation of the security contract spending and an additional R 10 million had to be added to the 2020/21 adjustment budget.

The principal decision that needs to be made is that security systems (example cameras and security gates with access control need to replace human security as this contract could be cut by 50% or more to assist in the reduction of expenditure)

6.5.18 **Consequence management principal must be introduced and be maintained**

The administration must understand that budget planning exercises and presenting of "funded budgets" should not be derailed by incurring unauthorised, irregular, or wasteful expenditure. If a director and his or her management do not control spending of their budgets, I do not work towards the avoiding of irregular and waste full expenditure that it must be seen as a "deviance "of Council resolutions that are not carried out. Consequence management must be applied by the accounting officer.

6.5.19 **Traveling and accommodation is not fully budgeted for as virtual meetings are encouraged.**

This is a serious cost driver that needs attention during the Budget steering committee cutbacks. If a municipality has the type of cash flow constraints that Msukaligwa is experiencing, it be agreed that these expenses be done away with until such time that it is affordable.

That the delegated staff or councillors be limited in so far as numbers to attend the same meeting. The matter should be dealt with and be reaffirmed during the deliberations in the Budget steering committee

6.5.20 Catering –The Cost containment regulations to supply food and drink for a meeting, less than 5 hours, as gazetted per Regulation in June as amended in July 2020, should be done away with. Catering is a luxury, and it must be expected from every staff member and council to ensure that they have enjoyed food at home or bring a lunchbox with. The matter of external guests that can assist the municipality should however be entertained.

The matter was fully controlled by the late Municipal manager. It is however understood that the matter is of concern as food is requested by several political offices. The rules of the less 5-hour meetings need to be adhered to.

6.5.21 Free basic services: Indigent: The 2022/23 MTREF budget for the subsidisation of the indigent is provide for 7000 of the possible 11 583 indigents

It is indicated that most of the other indigents that was supposed to be registered, receive electricity direct from Eskom.

Indigent subsidies currently in the financial system are based on 6 635 registered applicants for water, sewage, and refuse.

The allocated equitable share is used to subsidise services which the draft budget for 2022/2023 amounts to R 37,908 million (2021/2022 R 42 million).

The net amount of R 189,610 million which is to serve indigents of the R 227,520 equitable share allocated to Msukaligwa for 2022/2023, is available for funding the rest of the operational expenditure

6.5.22 Public participation for political offices. – A budget of R 156 600 (thousand) for 2022/2023 for the mayor's public participation were provided whilst the Chief Whip budget was increased with 6% with a budget of R 31,320 (thousand). The Speaker's vote is budgeted the amount of R 156 600. The matter of such allocations should be dealt with during the deliberations in the budget steering committee.

6.5.23 Trading services and cost reflective tariffs: When a service is to be covered by tariff structure such service must be ring-fenced in the calculations of revenue versus expenditure.

The electricity and water services are making serious losses. These losses are not all related to tariff increases that must be considered but is mostly related to non –and technical losses.

Distribution loss through tampering and theft as well as illegal connections must be dealt with in 2022/2025

It is suggested that a report on cost reflective tariffs be table during April 2022, to be approved as to inform the final 2022/2025 MTREF budget.

An application for tariff increases for electricity will be submitted to NERSA before or on the 31 March 2022.

Tariffs must be approved by 31 May and published 30 days before the new financial year start

7. BUDGET ESTIMATES: GENERAL INCREMENTAL INCREASES

The recent approved adjustment budget for the year 2021/2022, with adjustments based on the original budget for 2021/2022 were used as a departure point to generate a draft budget for 2022/2023.

The rates of increase for revenue and expenditure, with additional adjustments where necessary were made as follows:

7.1 REVENUE

Table A4 – Statement of performance (outer years excluded because the IDP review, and strategic meetings report outcome were not yet available)

MP302 Msukaligwa - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2018/19	2019/20	2020/21	Current Year: 2021/22				2022/23 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Revenue By Source											
Property rates	2	107 806	115 905	126 006	191 337	183 123	183 123	120 978	191 181	199 572	208 553
Service charges - electricity revenue	2	208 568	224 517	217 317	276 349	242 727	242 727	162 492	267 000	278 748	281 292
Service charges - water revenue	2	57 341	71 020	73 615	70 558	64 319	64 319	42 569	70 751	73 864	77 188
Service charges - sanitation revenue	2	32 540	39 908	46 957	43 432	48 326	48 326	37 860	53 923	56 296	58 829
Service charges - refuse revenue	2	26 901	32 383	38 971	50 858	40 183	40 183	32 711	44 202	46 148	48 223
Rental of facilities and equipment		2 067	2 891	2 500	2 688	2 657	2 657	1 778	2 660	2 777	2 902
Interest earned - external investments		3 136	1 853	949	300	300	300	418	330	345	360
Interest earned - outstanding debtors		29 923	35 810	41 446	41 985	27 500	27 500	18 921	30 338	31 673	33 098
Dividends received											
Fines, penalties and forfeits		5 992	5 751	5 971	5 239	5 239	5 239	113	5 254	5 465	5 731
Licences and permits		2 814	5 524	3 432	1 553	2 560	2 560	1 530	2 713	2 833	2 950
Agency services				9 276	9 300	8 600	8 600	5 450	8 600	8 078	9 382
Transfers and subsidies		157 248	180 256	228 918	207 727	208 157	208 157	152 116	224 711	234 587	244 585
Other revenue	2	16 728	13 482	5 571	5 142	7 849	7 649	5 030	7 952	8 301	8 675
Gains		(3 006)	7 968	2 283	-	953	953	953	994	994	1 036
Total Revenue (excluding capital transfers and contributions)		648 958	737 210	801 211	908 168	842 373	842 373	582 845	810 548	850 611	892 819

As a start towards refining the final budget to be tabled and approved the 31 May 2022 the following increases were considered:

MSUKALIGWA MUNICIPALITY	
SUGGESTED TARIFF INCREASES (NOT BASED ON COST RECOVERY) : DRAFT BUDGET 2022/2023	
Revenue	Draft : Increase
Property rates	5,00% plus 5% rebate
Electricity	10,00%
Water	10,00%
Sewerage	10,00%
Refuse	10,00%
Other	6,00%

7.2 NERSA: INPUTS on 2022/2023 increase of Eskom from 1 July 2022

EXECUTIVE SUMMARY: Consultation Paper – Municipal Tariff Guideline, Benchmarks and Proposed Timelines for FY 2022/23

The application of the formula of cost recovery suggested by NERSA within the results in a guideline as per the abovementioned consultation paper for 2021/2022 were suggested as increase of 14.59%, The 2022/2023 guidelines are not yet available.

The National Energy Regulator of South Africa (NERSA) is the regulatory authority of the energy sector in South Africa and its mandate includes the regulation of the electricity supply industry. In terms of section 4(ii) of the Electricity Regulation Act, 2006 (Act No. 4 of 2006) ('the Electricity Regulation Act'), NERSA must regulate electricity prices and tariffs.

NERSA, on an annual basis, approves a percentage guideline increase and reviews the municipal tariff benchmarks. The guideline increase assists the municipalities in the preparation of their budgets, while the revised benchmarks are used in the evaluation of the municipal tariff applications.

This process is dependent on the approval of Eskom's revenues and Retail Tariff Structural Adjustment (ERTSA).

NERSA approved Eskom's Retail Tariff Structural Adjustment (ERTSA) on 5 March 2021, **which resulted in an increase of 17.8% to municipalities** (on bulk purchases) and an overall average increase of 15.06% to Eskom's standard customers.

NERSA will hold a public hearing on the key issues highlighted in the consultation paper, in line with section 4(3) of the Promotion to Administration Justice Act, 2000 (Act No. 3 of 2000)

The following NERSA guideline for calculation of cost recovery for the electricity service suggest that the increase should be 20,21%

Type of expense	2022/2023 Amounts per draft budget	Ratio of expense (Contribution)	Nersa proposed contribution	Suggested Increase in costing	Not official Guideline 2022/2023
	R	%	%	%	%
Salaries	24 540 023	4.89	4.0	5.7	0.3
Bulk purchases (Draft budget include distribution loss of 10%)	366 852 143	73,16	76.0	9.61	9.61
NMD costs	Nil	Nil	0.2		
Debt impairment 100%-84%=16%	32 058 508	6.39	2.7	0.1	0.1
Indigent FBE to Eskom			0.6		0
Repair & maintenance	8 500 000	1,69	6.2	1.00	0.3
General expenditure	5 339 133	1.10	6.6	4.4	0.3
Finance costs (Interest on arrears -No borrowing)	33 580 000	6.69	1.7	0	0
Internal charges	13 277 940	2.64	2.1	0.3	0.1
Depreciation	17 271 795	3.44	Not addressed	0	0
Total	501 419 542	100%	100%	20,21	10.44

- As per the above table it is clear, that the norm of NERSA is exceeded, mainly due to the salary account that is greater than the norm by 0,89% (exceeding norm by R 4,483 million).
- Debt impairment should be 5% as the ideal collection rate of 95%. In the case of Msukaligwa (recovering arrears as well through the prepaid the collection rate is 84% which is 16% less due to poor collection

provision for repair and maintenance that should be 6% as per the guidelines is underestimated by 4,36 % or R 2, 861 million

- Depreciation is 3,44% with no comparative indicator by NERSA in the guideline. This amount however should be cash backed which currently not the case. Such contribution could have been used to replace aging infrastructure

The application for an increase in tariff application must be completed by 15 March 2022. Nersa's final guidelines however was not available when this report was submitted on the 14 March 2022 and an application will be lodged on date of Council resolution on or before 31 March 2022

7.3 Operational expenditure:

The following increases in spending were considered.

Table A4 Statement of performance: Operational expenditure

SUGGESTED EXPENDITURE INCREASES	
Expenditure	Draft : Increase
Employee related costs	
Councilors remuneration	4,90%
Bulk purchases Electricity	4,90%
Bulk water : Inventory	9,61%
Contracted services	10,00%
Repair and maintenance (10 % total of operating expenditure)	4,40%
Other expenditure	100,00%
Interest : Late payments Eskom	4,40%
Diesel & Petrol (World wide : Russia sanctions)	15,00%
	100,00%

MP302 Msukatiqwa - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22				2022/23 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Expenditure By Type											
Employee related costs	2	207 127	230 038	244 257	271 205	282 894	282 894	167 366	310 058	323 711	338 107
Reimbursement of councilors		15 145	15 651	16 038	17 548	17 448	17 648	9 631	18 613	19 323	20 137
Depreciation & asset impairment	3	115 700	62 522	49 761	152 853	83 202	86 202	62 426	153 978	160 756	167 084
Finance charges	2	122 638	128 540	137 098	139 146	140 610	140 610	41 953	140 616	146 803	153 409
Bulk purchases - electricity		34 764	29 834	103 372	-	29 200	29 200	-	87 160	70 116	73 270
Inventory consumed	2	216 463	249 020	204 680	340 294	208 768	208 768	189 128	366 852	382 034	400 226
Contractor services	8	6 525	12 653	18 473	43 715	119 156	119 156	4 063	130 127	130 727	142 621
Transfers and subsidies		59 459	60 400	53 191	81 523	69 583	66 585	29 757	87 306	85 969	89 249
Other expenditure		-	21	-	-	-	-	-	-	-	-
Losses	4, 5	49 035	44 757	50 372	58 624	54 604	51 034	26 838	68 596	53 521	48 414
Total Expenditure		824 874	874 132	956 853	1 143 511	959 090	959 090	502 813	1 359 877	1 413 841	1 473 483
Surplus/(Deficit)		(176 816)	(136 922)	(155 871)	(237 342)	(158 717)	(156 717)	80 072	(449 329)	(463 335)	(480 664)
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		10 367	117 171	168 253	168 089	119 054	199 063	113 775	287 052	334 903	318 623
Transfers and subsidies - capital (monetary allocations) (National / Provincial Department Agencies, Households, Non profit institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)	6	-	-	-	-	-	-	-	-	-	-
Transfers and subsidies - capital (in kind - all)		-	1 650	1 480	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions		(166 449)	(18 101)	15 668	(38 274)	42 352	42 352	193 847	(157 277)	(158 427)	(182 041)

Take note that the average CPI is targeted at 4,8%. As per the National treasury MFMA circular 115 dated 4 March 2022. This was announced before the serious expected worldwide increases, caused by the war between Russia and Ukraine

which followed. At the date of this report America paid \$ 2,10 or R 31.50 whilst Europe fuel price were fixed at 2,5 euro which is +/- R 45.00

It is suggested that the Council do not consider any new or critical positions to be added is surplus cash can be generated as the budget must be cash backed.

It is suggested that overtime be reduced and that very serious positions be exchanged for savings in overtime and standby if the budget is showing a cash surplus on table A7: Statement of Cash flow

Table A4: Statement of financial performance regarding expenditure are as follows:

8. Way forward

Suggested steps to follow as to ensure that a funded budget be approved (April 2022)

8.1 Funding choices and management issues (par.7 MFMA -circular 115)

- I. Municipalities are under pressure to generate revenue because of the economic landscape, the COVID-19 pandemic, weak tariff setting and increases in key cost drivers to provide basic municipal services.

The ability of customers to pay for services is declining and this means that less revenue will be collected.

Therefore, municipalities must consider the following when compiling their 2022/23 MTREF budgets:

- II. Improving the effectiveness of revenue management processes and procedures.
- III. 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.
- IV. Ensuring value for money through the procurement process.
- V. The affordability of providing free basic services to all households.
- VI. Not taking on unfunded mandates.
- VII. Strictly control the use of costly water tankers and fix the water infrastructure to enable the sustainable provision of water.
- VIII. Prioritise the filling of critical vacant posts, especially linked to the delivery of basic services; and
- IX. Curbing the consumption of water and electricity by the indigents to ensure that they do not exceed their allocation.
- X. 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.
- XI. That all Managers and Directors to interact with the budget office, middle March to April 2022 on a zero-base budget approach, where applicable. This item will include Contracted services, Inventory as well as other general expenditure to be incurred).
- XII. Critical positions and internal capital funding will be listed but will not be included in the operational and capital budget if a cash backed budget cannot be generated.

- XIII. To determine an affordable amicable percentage increase in tariffs which will be based on a cost recovery exercise be undertaken in April 2022 and submitted per report before the final budget in May 2022 can be considered.
- XIV. It is important that the Budget steering committee, to meet in April -May 2022, will deal with the principals suggested in this report and that improved policies and rules, on matters that is costly and not aligned with the cost curtailment regulations and not applicable in basic service delivery be dealt with.

8.2 Smart Prepaid Meters Solution (Par 6.5 MFMA Circular 115)

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

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

- Against proceeding prior to the OCPO having issued and awarded the transversal prepaid smart meter Terms of Reference (ToR); and
- That, with immediate effect, you must obtain the National Treasury's input prior to proceeding with any current procurement or proposed procurement for any smart meter solution or similar system solution. This is to prevent unnecessary and wasteful expenditure on such solutions.

Any request for National Treasury's input on the current or planned procurement of any smart meter solution or similar system solution or component thereof, must be directed to the National Treasury for the attention of the Local Government Budget Analysis Unit (Mr. Sadesh Ramjathan) Sadesh.Ramjathan@treasury.gov.za.

8.3 Principal decisions must be reflected in the recommendation that will deal with Technical and **non-technical distribution losses**. Tampering and theft, non-capturing of meter readings, non-capturing of meters installed need to receive serious attention as the municipality do have the ability to improve the current back sliding situation.

- **Metering:** Installation of prepaid meters to reduce the reliance on meter readers for the 70% conventional meter consumers are encouraged. It is suggested that the purchase and the installation as well as the capturing of the action on the financial system of water- and prepaid electricity be continued as budgeted for.
- Areas where water tankers deliver water, or where communal taps are used or where no meters are installed because of a technical matter, until such time that water meters can be

... that this principal be considered when cost reflective tariffs are calculated on the National treasury tool, be considered in April 2020.

- 8.4 Flat rate for those who receive water at water tanks and communal taps must be introduced. The administrative handling problem on the how to charge and collect need to be considered.
- 8.5 Revenue generation and the task of collection of arrears (debtors for the period 0-90 days), not the current debt collector, must be undertaken by the Credit control and debt collection section. A detail review with legal based suggestions, by an external company registered in terms of the national credit act, (who is specialists in this field of collection and debt management) need to be undertaken, to ensure that full capacity can collect up to 100% of outstanding monies recorded.
- 8.6 The municipality need to ensure that all debt collection processes be concluded through an electronic debt management system.
- 8.7 That prescription of consumption to be investigated for late estates, child headed households and any other account that will not be collected. That it be noted that property rates and basic charges cannot be written off before 30 years expire.
- 8.8 That all vacant stands default accounts be handed over to Attorneys (Collection orientated).
- 8.9 That an administrative charge for defaulters be calculated on every aspect of credit control and debt collection as to recover the cost of the credit control unit.
- 8.10 That the Budget related policies and accompanied by-laws be reviewed in March /April 2022 and be amendments be included during the finalisation of the budget in May 2022
9. Table A5: Capital Budget: Statement of Performance:

Vote Description	Ref	2018/19	2019/20	2020/21	Current Year 2021/22				2022/23 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2022/23	Budget Year +1 2023/24	Budget Year +2 2024/25
Capital Expenditure - Functional											
Governance and administration											
Executive and council		1 954	1 331	(2 998)	12 991	8 117	8 117	2 448	1 593	1 662	1 158
Finance and administration		1 051	1 331	2 171	210	1 450	1 450		533	555	
Internal audit		13		(5 170)	12 781	6 667	6 667	2 448	1 060	1 107	
Community and public safety											
Community and social services		2 018		6 441	4 664	3 922	3 922	738			1 156
Sport and recreation		859		41	2 300	300	300	60			
Public safety		235			2 364	1 170	1 170	308			
Housing		914		1 730		2 452	2 452	370			
Health				5 170							
Economic and environmental services											
Planning and development		22 938									
Road transport		1 984			58 613	19 000	19 000	3 245			
Environmental protection		20 944			3 030						
Trading services											
Energy services		54 885	2 478		55 903	19 000	19 000	3 245			
Water management		6 289	893		167 656	207 542	207 542	122 851	300 935	314 158	318 623
Waste water management		6 337			30 500	34 792	34 792	9 511	8 803	9 256	
Waste management		40 078			87 030	111 087	111 087	94 165	232 052	247 269	252 104
Other		7 102	1 500		50 000	59 187	59 187	17 708	60 000	52 640	65 459
Total Capital Expenditure - Functional		80 905	3 809	3 442	243 924	238 581	238 581	129 200	302 528	315 820	319 760
Funded by:											
National Government		71 561		5 170	159 059	198 936	198 936	116 500	300 655	312 721	318 689
Provincial Government											
District Municipality											
Transfers recognised - capital											
Borrowing		71 991		5 170	199 069	198 936	198 936	116 580	300 995	314 221	318 689
Internally generated funds											
Internally generated funds		9 034	3 809	(1 728)	41 855	39 645	39 645	12 700	1 530	1 591	1 991
Total Capital Funding		80 905	3 809	3 442	243 924	238 581	238 581	129 200	302 528	315 820	319 760

It is suggested that the Council do not consider internal funded capital projects, except the purchases of water and electricity meters, because of the poor cash flow situation as the budget must be cash backed.

Such capital items can only be included if after credible workings were done in March/ April 2022 and if a cash surplus was generated that it be included

MAYORAL COMMITTEE RECOMMENDATIONS

1. That the contents of MFMA Circulars 112 (6 December 2021) and 115 (4 March 2022) and the principals suggested within the unfunded draft 2022/23 MTREF budget report, as attached **BE CONSIDERED** as presented.
2. That the Budget steering committee **TO MEET** in the third week of April 2022– working towards April 2022 as to finalise a cash backed budget for operational and capital budget, with the inclusion of a five-year budget to cover the long-term unfunded budget
3. That any change in principals, increases and expenditure and budget submitted in the draft report **BE CONSIDERED** by Council
4. That the budget **BE DISCUSSED AND CONSIDERED** during the Budget steering committee in April 2022, and **BE CONSIDERED** for inclusion in the final budget report **TO BE TABLED** in May 2021
5. That a two-day workshop **BE ARRANGED** in April 2022, to enable relevant Councillors, the Municipal manager, Directors, and managers to review the undermentioned budget related policies as to be able to **BE APPROVED** it with the approval of the 2022/2025 MTREF budget in May 2022
6. That the Revenue enhancement strategy recommendations **BE IMPLEMENTED** to improve cash flow.
7. That the Network problem **BE ATTENDED** to as matter of urgently for the Municipality to be able to send Bills to the Community via e-mails.
8. That the Supply Chain speed –up the processes of procuring Water meters to be installed in all Admin Units, for the Municipality to improve Revenue Collection.
9. That the Mayoral Committee recommendations **BE TABLED** to Council for Consideration

RECOMMENDATIONS TO COUNCIL

1. That the contents of MFMA Circulars 112 (6 December 2021) and 115 (4 March 2022) and the principals suggested within the unfunded draft 2022/23 MTREF budget report, as attached **BE CONSIDERED** as presented.
2. That the Budget steering committee **TO MEET** in the third week of April 2022– working towards April 2022 as to finalise a cash backed budget for operational and capital budget, with the inclusion of a five-year budget to cover the long-term unfunded budget
3. That any change in principals, increases and expenditure and budget submitted in the draft report **BE CONSIDERED** by Council
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6. That the Revenue enhancement strategy recommendations be implemented to improve cash flow.
7. That the Network problem **BE ATTENDED** to as matter of urgently for the Municipality to be able to send Bills to the Community via e-mails.
8. That the Supply Chain speed –up the processes of procuring Water meters to be installed in all Admin Units, for the Municipality to improve Revenue Collection
9. For Council **TO CONSIDER** the recommendations of the Executive Mayor.



Municipal Budget Circular for the 2022/23 MTREF

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Introduction

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

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

1. The South African economy and inflation targets

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

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

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

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

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

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

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

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

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

Table 1: Macroeconomic performance and projections, 2020 - 2025

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

Source: Budget Review 2022.

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

2. Key focus areas for the 2022/23 budget process

2.1 Local government conditional grants allocations

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

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

- The local government equitable share formula has been updated to account for projected household growth, inflation and estimated increases in bulk water and electricity costs over the 2022 MTEF period. R28.9 billion is added to the LGES over the MTEF to increase coverage of the provision of free basic services; and
- An amount of R1.7 billion over the MTEF is added to the Neighbourhood Development Partnership Grant to fund the continuation of the upscaling of city-led public employment programmes, as part of the Presidential Youth Employment Intervention; and an amount of R347 million over the first two years of the MTEF period is allocated to fund the introduction of the Municipal Disaster Recovery Grant. More detail is provided below.

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

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

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

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

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

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

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

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

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

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

2.3 Changes to gazetted frameworks and allocations

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

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

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

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

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

3. IDP Consultation Process Post 2021 Local Government Elections

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

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

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

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

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

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

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

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

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

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

5. Municipal Standard Chart of Accounts (mSCOA)

5.1 Release of Version 6.6.1 of the Chart

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

- The capital leg of the Local Government Financial Management (FMG) grant that was retired in chart version 6.2 of the chart. As per the conditions published in the 2022 DoR Bill, the grant may be used, inter alia, for the acquisition, upgrade and maintenance of financial management systems to produce multi-year budgets, in-year reports, service

delivery and budget implementation plans, annual financial statements, annual reports and automated financial management practices including the *mSCOA*;

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

Version 6.6.1 of the chart will be effective from 01 July 2022 and must be used to compile the 2022/23 MTREF. The patch is available on the link below:

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

5.2 Funding Depreciation

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

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

5.3 Application of Costing

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

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

5.4 Change in calculation of consumer deposits

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

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

All payments received in respect of consumer deposits will be picked up utilising the consumer deposit fund source linked to the bank: deposits posting level. The payment of consumer

deposits will be picked up from item liability: consumer deposits: withdrawals posting levels, which represent the outflow of cash.

5.5 NERSA reporting

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

5.6 Restructuring of the Long-Term Component of Trade Payables

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

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

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

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

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

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

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

5.7 mSCOA eLearning

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

The course is structured as follows:

Module 1 – The fundamentals of mSCOA (for financial and non-financial officials)

- An overview of the Local Government Budget and Financial Management Reform Agenda and mSCOA Legislative Framework;
- mSCOA implementation oversight (including the role of internal audit, risk management and councilors); and
- Understanding the mSCOA segments.

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

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

Module 3 – Budgeting and transacting on the mSCOA chart (for financial officials)

An understanding of accounting principles and GRAP is required to complete this module.

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

6. The revenue budget

Similar to the rest of government, municipalities face a difficult fiscal environment. The weak economic growth has put pressure on consumers' ability to pay for services, while transfers from national government are growing more slowly than in the past. Some municipalities have managed these challenges well, but others have fallen into financial distress and face liquidity problems. These include municipalities that are unable to meet their payment obligations to Eskom, Water Boards and other creditors. There is a need for municipalities to focus on collecting revenues owed to them and eliminate wasteful and non-core spending.

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

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

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

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation is forecasted to be within the lower limit of the 3 to 6 per cent target band; therefore, municipalities are required to **justify all increases in excess of the projected inflation target for 2022/23** in their budget narratives and pay careful attention to tariff increases across all consumer groups. In addition, municipalities should include a detail of their revenue growth assumptions for the different service charges in the budget narrative.

6.1 Maximising the revenue generation of the municipal revenue base

Reference is made to MFMA Circulars No. 93, paragraph 3.1 and No. 98, paragraph 4.1. The emphasis is on municipalities to comply with Section 18 of the MFMA and ensure that they fund their 2022/23 MTREF budgets from realistically anticipated revenues to be collected. Municipalities are cautioned against assuming collection rates that are unrealistic and unattainable as this is a fundamental reason for municipalities not attaining their desired collection rates.

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

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

6.2 Setting cost-reflective tariffs

Reference is made to MFMA Circular No. 98, paragraph 4.2. The setting of cost-reflective tariffs is a requirement of Section 74(2) of the Municipal Systems Act, 2000 which is meant to ensure that municipalities set tariffs that enable them to recover the full cost of rendering the service. This forms the basis of compiling a credible budget. A credible budget is one that ensures the funding of all approved items and is anchored in sound, timely and reliable information on expenditure and service delivery (Financial and Fiscal Commission (FFC), 2011). Credible budgets are critical for local government to fulfil its mandate and ensure financial sustainability.

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

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

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

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

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

6.3 Bulk Account Payments and Concessions

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

During the process, Eskom agreed to provide relieve in certain areas. Municipalities are reminded of the following concessions that remain in place:

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

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

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

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

6.4 Timeous allocations and clearing of the control accounts

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

6.5 Smart Prepaid Meters Solution

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

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

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

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

6.6 Critical Notice Affecting STS Meters

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

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

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

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

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

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

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

6.7 Completeness and credibility of revenue related information in the Budget

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

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

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

6.8 Eskom Bulk Tariff increases

The National Energy Regulator of South Africa (NERSA) is responsible for price determination of the bulk costs for electricity. Bulk electricity costs are consistently much higher than inflation, having gone as high as 17.8 per cent in the 2021/22 municipal financial year. Eskom's need for increased funding means that over the period ahead they are applying for much higher tariff increases. In their Multi-Year Price Determination (MYPD 5) application Eskom requested approval for municipal bulk tariff increases of 20.5 per cent in 2022/23, 15 per cent in 2023/24 and 10 per cent in 2024/25. NERSA rejected this revenue application at the end of September 2021 and in October 2021 ESKOM filed an application in the High Court to review NERSA's decision. Following the deliberations, NERSA has approved a 9.6 per cent tariff increase for Eskom starting from April 2022 and this figure accounts for a 3.49 per cent increase in 2022/23.

6.9 Long Term Financial Strategies

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

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

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

and effective borrowing strategy and practices for the municipality and provide a clear statement of intent for lenders and other stakeholders.

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

6.10 Water management

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

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

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

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

Accounting for electricity sold and electricity losses:

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

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

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

Cabinet adopted the Medium-Term Strategic Framework (MTSF) for 2019-2024 wherein it amongst others, committed that government will reduce irregular expenditure by 75 per cent and fruitless and wasteful expenditure by 100 per cent by 2024. It is important to note that these targets are applicable to each sphere of government. To this end, the Minister of Finance approved the UIFW Reduction Strategy for municipalities which was issued through MFMA Circular No. 111 in November 2021. The latter strategy advocated for municipalities to develop UIFW reduction plans that is approved by the municipal council, with the aim being for municipalities to utilize their 2018/19 UIFW figures as contained in their audited annual financial statements for that financial year as a baseline to develop the reduction plans. Whilst progress has been slow in terms of municipalities developing and submitting these plans to the National Treasury, some municipalities has made strides in this regard.

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

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

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

7. Funding choices and management issues

Municipalities are under pressure to generate revenue as a result of the economic landscape, the COVID-19 pandemic, weak tariff setting and increases in key cost drivers to provide basic municipal services. The ability of customers to pay for services is declining and this means that less revenue will be collected. Therefore, municipalities must consider the following when compiling their 2022/23 MTREF budgets:

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

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

7.1 Employee related costs

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

7.2 Remuneration of Councillors

Municipalities are advised to budget for the actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of

Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance. It is anticipated that this salary determination will also take into account the fiscal constraints. Municipalities should also consider guidance provided above on salary increases for municipal officials during this process. Any overpayment to councilors contrary to the upper limits as published by the Minister of Cooperative Governance and Traditional Affairs will be irregular expenditure in terms of Section 167 of the MFMA and must be recovered from the councilor(s) concerned.

7.3 Equitable Share allocation

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

8. Transfers to Municipalities

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

8.1 Criteria for the rollover of conditional grant funds

In terms of Section 21 of the Division of Revenue Act, 2021 (Act No.9 of 2021) (DoRA) read in conjunction with the Division of Revenue Amendment Act, 2021 (Act No. 17 of 2021) (DoRAA), the Act requires that any conditional allocation or a portion thereof that is not spent at the end of the 2021/22 financial year reverts to the National Revenue Fund (NRF), unless the rollover of the allocation is approved in terms of subsection (2). Furthermore, the receiving officer, provincial treasury and transferring national officer is required to prove to National Treasury that the unspent allocation is committed to identifiable projects, in which case the funds may be rolled over.

When requesting a rollover in terms of section 21(2) of the 2021 DoRA, municipalities must include the following information with their submission to National Treasury:

- A formal letter, signed by the accounting officer addressed to the National Treasury requesting the rollover of unspent conditional grants in terms of section 21(2) of the 2021 DoRA;
- A list of all the projects that are linked to the unspent conditional grants and a breakdown of how much was allocated and spent per project;
- The following evidence indicating that work on each of the projects has commenced, as applicable to the specific rollover(s):
 - a) Proof that a contractor or service provider was appointed for delivery of the project before 31 March 2022; or
 - b) Proof of project tender and tender submissions published and finalised before 31 March 2022 with the appointment of contractor or service provider for delivery of the service before 30 June 2022 in cases where additional funding was allocated during the course of the final year of the project. Further, municipalities must note the letters issued by National Treasury dated 25 February and 03 March 2022 respectively regarding the Preferential Procurement Regulation, 2017;
 - c) Incorporation of the Appropriation Statement; and

- d) Evidence that all projects linked to an allocation will be fully utilised by 30 June 2022 (attach cash flow projection for the applicable grant).
- A progress report (also in percentages) on the status of each project's implementation that includes an attached legible implementation plan);
 - The value of the committed project funding, and the conditional allocation from the funding source;
 - Reasons why the grants were not fully spent during the year of original allocation per the DoRA;
 - Rollover of rollovers will not be considered therefore municipalities must not include previous year's unspent conditional grants as rollover request;
 - An indication of the time-period within which the funds are to be spent if the roll-over is approved; and
 - Proof that the Municipal Manager and Chief Financial Officer are permanently appointed.

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

If any of the above information is not provided or the application is received by National Treasury (Intergovernmental Relations Division) after 31 August 2022, the application will not be considered.

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

- Compliance with the in-year reporting requirements in terms of sections 71 and 72 of the MFMA and section 12 of the 2021 DoRA, including the municipal manager and Chief Financial Officer signing-off on the information sent to National Treasury;
- Submission of the pre-audited Annual Financial Statements to National Treasury by 31 August 2022;
- Accurate disclosure of grant performance in the 2021/22 pre-audited Annual Financial Statements, (i.e. correct disclosure of grant receipts and spending in the notes to the AFS);
- Despite the fact that local government is required to comply to different norms and standards prescribed by different legislations, municipalities are expected to fully comply with the provisions of DoRA that relates to rollover processes and disclose conditional grant performance in the 2021/22 pre-audited Annual Financial Statements in order to verify grant expenditure; and
- Cash available in the bank (net position including short-term investments) as at 30 June 2022 is equivalent to the amount that is unspent as at the end of the financial year. If the amount that is requested for roll-over is not entirely cash backed, such a roll-over will not be approved. National Treasury will also not approve portions of rollover requests.

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

- The entire 2021/22 allocation to the municipality, in cases whereby the rollover request is more than 50 per cent of the total allocation, National Treasury will approve the rollover amount up to 50 per cent of the 2021/22 allocation;
- Rollover request of the same grant for the third consecutive time;

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

8.2 Unspent conditional grant funds for 2021/22

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

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

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

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

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

8.3 Importance of section 16 of the Division of Revenue Act

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

Section 16 (3) of DoRA states that a receiving officer may not allocate any portion of a schedule 5 allocation to any other organ of state for the performance of a function, unless the receiving officer and the organ of the state agree on the obligation of both parties and a payment schedule, the receiving officer has notified the transferring officer, the relevant provincial treasury and National Treasury of the agreed payment schedule and:

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

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

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

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

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

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

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

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

Therefore, if any expenditure incurred which emanates from such an arrangement while there was non-compliance with section 16, grant conditions and framework, such expenditure will not be recognised by both National Treasury and relevant transferring officer and will be classified as unauthorised expenditure.

9. The Municipal Budget and Reporting Regulations

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

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

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

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

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

The budget, adjustments budget and Section 71 monthly reporting Schedules that have been regulated in terms of the MBRR have also been aligned to the mSCOA chart version 6.6.1. The revised MBRR Schedules for the 2022/23 MTREF and its linkages to the financial and non-financial data string are available on the link below:

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

9.2 Assistance with the compilation of budgets

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

Province	Responsible NT officials	Tel. No.	Email
Eastern Cape	Matjatji Mashoeshoe	012-315 5553	Matjatji.Mashoeshoe@treasury.gov.za
	Abigail Maila	012-395 6737	Abigail.Maila@Treasury.gov.za
Buffalo City	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
Free State	Sifiso Mabaso	012-315 5952	Sifiso.mabaso@treasury.gov.za
	Cethekile Moshane	012-315 5079	Cethekile.moshane@treasury.gov.za

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

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

9.3 Assessing the 2022/23 MTREF budget

National and provincial treasuries will assess the 2022/23 MTREF budgets to determine if it is complete, funded and complies with the *m*SCOA requirements. The *m*SCOA data strings for the tabled (TABB) and adopted (ORGB) budgets will be used for this assessment.

The **assessment period** of all municipal budget will therefore be from **01 April to 30 June 2022 for both the tabled and adopted budgets**. In this period, the National and provincial treasuries will evaluate all municipal budgets for completeness and for being fully funded. Any adjustment that need to be made must be done before the start of the municipal financial year on 1 July.

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

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

The National Treasury would like to emphasise that **where municipalities have adopted an unfunded budget without a credible funding plan, they will be required to correct the funding plan and ensure that it is credible. The credible funding plan must be**

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

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

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

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

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

10. Submitting budget documentation and A1 schedules for 2022/23 MTREF

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

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

Since the 2020/21 MTREF, municipalities are no longer required to submit hard copies of all required documents including budget related, Annual Financial Statements and Annual Reports to National Treasury via post or courier services. Electronic copies must be submitted in pdf format to the GoMuni Upload portal.

10.1 Expected submissions for 2022/23 MTREF

The following information should be submitted for the 2022/23 MTREF:

- The budget documentation as set out in the MBRR. The budget document must include the main A1 Schedule Tables (A1 - A10);
- The non-financial supporting tables (A10, SA9, SA11, SA12, SA13, SA22, SA23, SA24 etc. and any other information not contained in the financial data string) in the A1 schedule must be submitted in the prescribed mSCOA data string in the format published with Version 6.6 of the A1 schedule;
- The draft and final service delivery and budget implementation plan (SDBIP) in electronic PDF format;
- The draft and final IDP;
- The council resolution for the tabled and adopted budgets;
- Signed Quality Certificate as prescribed in the MBRR for the tabled and adopted budgets;
- D Schedules specific for the entities; and
- A budget locking certificate immediately at the start of the new municipal financial year on 1 July.

10.2 GoMuni Upload Portal

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

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

10.3 Additional validation rules applicable to data string submissions

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

1. A balanced data string must be submitted. This means that the data strings that is submitted must always be in balance. All the transactions should be included for Revenue, Expenditure, Gains and Losses, Assets, Liabilities and Net Assets;
2. All secondary cost data strings may only be linked to Item: Expenditure: Default. All costing transactions must be linked to Item: Expenditure default as it refers to the reallocation of cost from one function to another or one operational project to another operational project. Where cost is capitalised the costing segment is not used;
3. Inventory for water must be linked to the Function: Water Management. Bulk purchases of Water must only be recorded against the Water management function; and
4. Opening balances must be linked to Project default and Fund: non funding. All opening balances that are not linked to Project default and Non funding will not be valid.

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

10.4 Publication of municipal documents

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

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

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

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

10.5 Communication by municipal entities to National Treasury

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

Contact



national treasury

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 March 2022

Enquiries: Thandi Jiyane
 Tel: 012 369 8000
 Cell: 083 276 2286
 E-mail: tjiyane@salga.org.za
 Date: 15 January 2022



Mr SI Malaza
 Municipal Manager (Acting)
 Msukaligwa Local Municipality
 PO Box 48
 ERMELO
 2350

Dear Mr Mazala,

Re: CONFIRMATION OF FINAL APPROVED (ADJUSTMENT) ANNUAL SALARY BUDGET FOR 2021/2022 FINANCIAL YEAR TO BE USED TO CALCULATE 2022/2023 MEMBERSHIP LEVY INVOICE

The NEC on 31st March 2021, approved an amendment of the membership levy formula, to ensure stability of members' good standing status and to eliminate re-invoicing after adjustment budgets.

Membership levy formula has been revised as follows:

Old membership levy formula was as follows:

- District and Local municipalities – 1% of the municipal annual salary budget with a minimum billable amount of R500 000.

New membership levy formula is as follows:

- District and Local municipalities – 1% of previous year final annual salary budget plus CPI; with a minimum billable amount of R500 000.

Kindly confirm your final approved (adjustment) salary budget for the 2021/2022 financial year with an objective of assisting us to ensure accuracy of your Municipality's membership levy invoice for 2022/2023 and completeness of revenue. According to STATS SA, annual average consumer price index (CPI) for 2021 calendar year is 4.5%.

The requested information should reach us on or before 15 March 2022. Should your Municipality fail to submit confirmation of the salary budget, the National Treasury budget publication (MTREF) shall be used to determine the membership levy invoice for the year. Please complete and sign on the spaces provided on this letter and e-mail same to the contact person mentioned above.

CONFIRMATION:

Membership Levy Calculation	Municipality Official Stamp
Final approved salary budget 2021/2022 =	
1% of 2021/2022 Salary budget =	
Plus: Annual Average CPI @ 4.5% =	
Total Membership levy invoice for 2022/2023 =	

CONFIRMED BY:

Name & Designation	Authorized Signature
Date	Contact Number

Yours faithfully,


THEMBEKA MTHETHWA
CHIEF FINANCIAL OFFICER