MFMA Circular No. 59
Municipal Finance Management Act No. 56 of 2003

Municipal Budget Circular for the 2012/13 MTREF

This circular provides further guidance to municipalities and municipal entities for the preparation of their 2012/13 Budgets and Medium Term Revenue and Expenditure Framework (MTREF). It must be read together with MFMA Circulars No. 48, 51, 54, 55 and 58.

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1 Key focus areas for the 2012/13 budget process

The *Budget Review 2012* notes that the South African economy has demonstrated resilience despite unsettled international economic conditions. Global developments are likely to hold back higher growth over the short term, resulting in gross domestic product (GDP) growth being expected to slow from 3.1 per cent in 2011 to 2.7 per cent in 2012. However, the domestic outlook remains positive over the medium term. As the world economy strengthens, GDP growth will accelerate to 3.6 per cent in 2013 and 4.2 per cent in 2014, led by robust household consumption, and stronger public- and private-sector investment.

Government is focussing on capital investment in large-scale public-sector infrastructure projects and reducing the cost of doing business through targeted interventions. This will entail shifting the composition of spending from consumption towards capital investment. Moderating growth in the public-sector wage bill, and stabilising the growth in interest payments, will allow more funds to be spent on infrastructure and social spending.

The labour market has shown signs of improvement over the past year, with total employment rising by 520 000 new jobs or 2.8 per cent between December 2010 and December 2011. Job creation has been in the formal private sector. The economy is projected to add 850 000 new jobs over the next three years, with 80 per cent of these in the private sector, lowering the unemployment rate to about 23 per cent in 2014. Most of these jobs are likely to be concentrated in services and construction as a result of steady growth in domestic demand and infrastructure expenditure, and a pickup in residential investment expected during the outer years of the forecast.

Consequently, municipal revenues and cash flows are expected to gradually improve during 2012/13. However, given that the likely recovery is not guaranteed and, at best, is likely to be slow, ***municipalities must still adopt a conservative approach when projecting their expected revenues and cash receipts***. Municipalities should also pay particular attention to managing all revenue and cash streams effectively, and carefully evaluate all spending decisions.

1.1 Additional allocations to local government

The *Budget Review 2012* and the *2012 Division of Revenue Bill* indicates that over the 2012 MTEF, transfers to local government grow by R5.3 billion, of which R2.2 billion is added to the local government equitable share and R3.1 billion to local government conditional grants. Additions to the equitable share provide for increased support for the institutional costs of poor municipalities and for the anticipated increase in the costs of basic services in the second and third years of the MTEF period.

This means the baseline allocations to local government for 2012/13 are R37.9 billion to the local government equitable share, and R30.4 billion for conditional grants. Municipalities MUST ensure that their tabled budgets reflect the equitable share and conditional grant allocations set out in the 2012 Division of Revenue Bill.

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

http://www.treasury.gov.za/documents/national%20budget/2012/default.aspx

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

2 Headline inflation forecasts

Municipalities must take the following inflation forecasts into consideration when preparing their 2012/13 budgets and MTREF.

Fiscal year	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	Estimate		Forecast	
Headline CPI Inflation	3.8%	5.7%	5.9%	5.3%	4.9%

Source: Budget Review 2012

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

The period of the *Salary and Wage Collective Agreement 2009/10 to 2011/2012* has come to an end. In the absence of other information from the South African Local Government Bargaining Council, municipalities are advised to budget for a 5 per cent cost-of-living increase adjustment, to be implemented with effect from July 2012 (in-line with the increase proposed in the 2012 MTBPS).

3 Revising rates, tariffs and other charges

In addition to the issues dealt with in MFMA Budget Circular 58, municipalities are advised to take note of the following:

3.1 Eskom bulk tariff increases

The Eskom price of bulk electricity supplied to municipalities will increase by 13.5 per cent on 1 July 2012. Based on this price increase, and increases in the price of other inputs NERSA has set a guideline increase for municipal tariffs of 11.03 per cent. The relevant guideline, as well as NERSA's Reasons for Decision document can be accessed at: www.nersa.org.za.

National Treasury was consulted on the methodology used by NERSA to calculate the guideline municipal tariff increase.

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

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

3.1 Process for NERSA approval of municipal electricity tariffs

NERSA's 09 March 2012 decision to reduce the increase in the Eskom price of bulk electricity supplied to municipalities has a direct impact on NERSA's ability to comply with section 43(3) of the MFMA, and approve municipal tariffs for the 2012/13 financial before 15 March 2012.

In terms of section 43(3) of the MFMA, the Minister of Finance may, on good grounds, approve that tariffs determined by NERSA after 15 March 2012 which have to be implemented by municipalities from 1 July 2012.

National Treasury is currently in discussions with NERSA on how to manage the process of approving municipal tariff applications for 2012/13 in way that does not disrupt the finalisation of municipal budgets. Further information in this regard will be emailed to municipalities once there is agreement.

In the meantime municipalities are asked to submit their tariff applications and D-forms to NERSA as soon as possible.

4 Funding choices and management issues

4.1 Re-examine the operating budget so as to fund infrastructure

As noted above, the government is focussing on capital investment in order to foster economic growth and reduce the cost of doing business in the country. It is expected that municipalities will adopt a similar stance when preparing their budgets for 2012/13. To do this, municipalities need to focus on controlling expenditure on their operating budget (Budgeted Financial Performance) so as to generate surpluses (own revenues) which are cash backed to strengthen the funding of the capital budget.

When it comes to funding the capital budget (see Table A5) many municipalities are completely or largely reliant on national and provincial conditional grants. In other words, they contribute nothing or very little from their own revenues to the funding of infrastructure within the municipality. To change this, all municipalities need to explore ways in which their own revenue contribution to funding their capital budget can be increased. This means carefully examining ways to increase revenues and improving revenue collection, and evaluating the appropriateness and priority of ALL current expenditure and eliminating all non-priority spending (see item 4.1 of MFMA Budget Circular 58).

In addition to funding the capital budget, municipalities also need to pay ongoing attention to the issue of renewal of existing assets and repairs and maintenance. Refer to MFMA Circular 55 as regards benchmarks for spending on renewal of existing assets and repairs and maintenance, as well as disclosure requirements in the budget document. The overall challenge is to change the composition of municipal spending away from consumption items (mainly personnel) to areas of expenditure that support economic growth and service delivery more directly.

4.2 The ratio of personnel expenditure to operating expenditure

Is there a prescribed or recommended benchmark for the ratio of personnel expenditure to operating expenditure? The short answer is: no.

The ratio of personnel expenditure to operating expenditure is widely used as an indicator of the sustainability of municipal budgets and expenditures. This raises important questions of exactly how the ratio should be interpreted and whether National Treasury *should* set a benchmark for purposes of assessing the sustainability of municipal finances.

First, on the issue of interpreting the ratio, one needs to be aware of the factors that can influence it. These include:

- the nature of the functions allocated to the municipality and types and extent of services it delivers;
- the municipality's organisational structure, particularly the ratio of management to technical and unskilled employees;
- the labour intensity of the municipality's operations versus the extent of mechanization;
- the extent to which the municipality has outsourced the more labour intensive components of its operations; and
- the composition of the non-personnel components of operating expenditure, particularly trends in expenditure on maintenance and payments for bulk water and electricity services.

Second, on the issue of setting a benchmark, it is clear that the interpretation of the ratio is specific to the context of each municipality. *It would therefore be inappropriate for National Treasury to set a specific benchmark, consequently there is NO benchmark.*

Nevertheless, should the ratio for a municipality be significantly above or below the average ratio for its peers (municipalities of similar size and functional responsibility) or if the ratio for a municipality move upward or downward, it should be treated as a warning signal and should trigger an enquiry into the factors that are driving the ratio in a particular direction. It is after all these underlying factors that may be threatening the financial sustainability of the municipality and not the ratio itself.

Currently, among municipalities with the electricity function, this ratio is tending to move downward despite fairly large increases in personnel spending. This is because spending on bulk electricity purchases is increasing at a very fast rate, driving the relative share of all other expenditure categories down. In such instances the ratio tells one very little about the appropriateness of a municipality's level of expenditure on personnel relative to the overall operating budget.

4.3 Equitable share ward allocations

Funds have been added to the Special Support for Councillor Remuneration and Ward Committees that is transferred together with the local government equitable share in schedule three. These additions increase the level of the subsidy contributed by national government towards the cost of remunerating councillors and provides funding for the payment of stipends to ward committee members. These allocations are only made to municipalities in grades 1-3 municipalities (the lowest three of the six municipal grades) in terms of the grading system prescribed in the annual *Gazette on the determination of upper limits of salaries, allowances and benefits of different members of Municipal Councils*. Details of the allocation per municipality are provided in Appendix W1, from page 256 of the Division of Revenue Bill.

Note that as these funds are transferred as part of the equitable share which is an unconditional transfer, no conditions may be prescribed for how they are used. The municipality therefore has discretion over the use of these funds to fund their councilor remuneration and ward committee structures in terms of their own policy (within the gazetted upper limits) or may even choose to use them in other areas of the budget, according to local priorities.

4.4 Grants and VAT transactions

When municipalities are assessing the VAT consequences of transactions involving the equitable share grant and conditional grants they must distinguish between:

1. *Transaction one - the transfer of the grants from national government or provincial government to the municipality*. The VAT on these transactions is zero-rated, and

therefore the issue of paying and reclaiming VAT related to these transactions does not arise.

2. *Transaction two – the expenditure of the grant funds by the municipality*. These transactions are subject to the normal VAT provisions. Depending on the nature of goods and services purchased the municipality may or may not be required to pay input VAT. It is this reclaimed input VAT that MFMA Budget Circulars 48 and 58 indicate becomes part of the municipality's cash.

Note that generally agency payments from national government and provincial government to local government are unlikely to be regarded as *grants* for VAT purposes. The municipality is performing a service for the relevant national or provincial department in terms of the agency agreement and so agency payments from the relevant national/provincial department to the municipality are subject to the normal VAT provisions.

Please refer to the **VAT 419 Guideline for Municipalities** which is available at:
http://mfma.treasury.gov.za/Guidelines/Pages/default.aspx

5 Conditional transfers to municipalities

Section 216 of the Constitution provides for national government to transfer resources to municipalities in terms of the annual Division of Revenue Act (DoRA) to assist them in exercising their powers and performing their functions. These allocations are announced annually in the national budget. Transfers to municipalities from national government are supplemented with transfers from provincial government. Further, transfers are also made between district municipalities and local municipalities.

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

Schedule 1 – sets out the equitable division of anticipated revenue raised nationally among the national, provincial and local spheres of government (the so called vertical division);

Schedule 2 – sets out each province's equitable share of the provincial government sphere's share of revenue raised nationally (the so called horizontal division among provinces);

Schedule 3 – sets out each municipality's equitable share of the local government sphere's share of revenue raised nationally (the so called horizontal division among municipalities);

Schedule 4 – supplementary funding allocations to provinces from national government's share of revenue;

Schedule 5 – specific purpose allocations to provinces from national government's share of revenue;

Schedule 6 – specific purpose allocations to municipalities from national government's share of revenue;

Schedule 7 – allocations in-kind to provinces and municipalities for designated special programmes; and

Schedule 8 – provision to specifically cater for immediate release of funds to provinces and municipalities for disaster response.

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

Municipalities are advised not to accept transfers from national or provincial departments that are not reflected in the 2012 Division of Revenue Bill or the relevant provincial budget, or that are not related to a properly approved agency agreement. Such ad hoc transfers are very often unauthorised expenditure at the national and provincial level, and are invariably related to fiscal dumping.

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

In support of regulation 10 of the *Municipal Budget and Reporting Regulations*, the 2012 Division of Revenue Bill provides that –

1. In terms of section 14, National Treasury is required to publish in the *Government Gazette* the allocations and indicative allocations for all national grants to municipalities;
2. In terms of section 29, each provincial treasury is required to publish in the *Government Gazette* the allocations and indicative allocations per municipality for every allocation to be made by the province to municipalities from the province's own funds; and
3. In terms of section 28, each category C municipality must indicate in its budget all allocations from its equitable share and conditional allocations to be transferred to each category B municipality within the category C municipality's area of jurisdiction.

The Government Gazette reflecting the allocations and indicative allocations for all national grants to municipalities is available at:

http://www.treasury.gov.za/legislation/bills/2012/Default.aspx

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

http://www.treasury.gov.za/legislation/mfma/media_releases/Municipal%20Payment%20Schedule/

The payment schedules that provincial treasuries are required to submit to National Treasury in terms of section 29(5) of the 2012 Division of Revenue Bill will be published on National Treasury's website, along with the national payment schedule.

5.1 Timing of municipal conditional grant transfers

In order to facilitate synchronisation of the national / provincial financial year (01 April to 31 March) with the municipal financial year (01 July to 30 June), the 2012 Division of Revenue Bill requires that all equitable share and Schedule 4 and 6 conditional allocations to municipalities must be transferred to municipalities within the period 01 July 2012 to 31 March 2013. Municipalities must not accept any equitable share, Schedule 4 and Schedule 6 transfers from national or provincial departments outside of these timeframes.

National and provincial departments are also advised to only transfer other grant funds and to only make agency payments to municipalities within the period 01 July 2012 to 31 March

2013. This is to ensure the municipality is able to include such funds on its budget for 2012/13 and to ensure that reporting on the use of the funds is properly aligned across the national/provincial and municipal financial years.

5.2 Payment schedule for transfers

National Treasury has instituted an automated payment system for transfers to municipalities during the 2010 financial year in order to ensure appropriate safety checks are put in place.

Section 22 of the 2012 Division of Revenue Bill requires transfers to municipalities to be made as per the approved payment schedule published by National Treasury. Through this system, any transfers not in line with the payment schedule will be rejected. In addition if the payment details of the municipality are not up-to-date the transfers will also be rejected.

5.3 Responsibilities of transferring and receiving authorities

The legal obligations placed on transferring and receiving officers in terms of the 2012 Division of Revenue Bill are very similar to previous requirements. National Treasury intends ensuring strict compliance in order to improve spending levels, and the quality of information relating to the management of conditional grants.

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

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

5.4 Unspent conditional grant funds for 2011/12

To bring legal certainty to the process of managing unspent conditional grant funds, the 2012 Division of Revenue Bill contains the following provisions:

> **Unspent conditional allocations**
> 21. (1) Despite the provisions of the Public Finance Management Act or the Municipal Finance Management Act relating to roll-overs, any conditional allocation that is, in the case of a province, not spent at the end of a financial year or, in the case of a municipality, at the end of a municipal financial year, reverts to the National Revenue Fund, unless the relevant receiving officer can prove to the satisfaction of the National Treasury that the unspent allocation is committed to identifiable projects.
>
> (2) The National Treasury, and a provincial treasury in the case of a provincially funded allocation, may, at the request of a transferring national officer, provincial treasury or municipality, approve—
> (a) a roll-over from a conditional allocation to the next financial year; and
> (b) spending of a portion of a conditional allocation on activities related to the purpose of that allocation, where the province or municipality projects significant unforeseeable and unavoidable over-spending on its budget.
>
> (3) (a) Any funds which must revert to the National Revenue Fund in terms of subsection (1), and which have not been approved by the National Treasury

to be retained in terms of subsection (2), must be repaid to the National Revenue Fund.

(b) A receiving officer must ensure that all funds referred to in paragraph (a) are repaid to the National Revenue Fund.

(4) The National Treasury, in accordance with subsection (5), may offset any funds which must be repaid to the National Revenue Fund in terms of subsections (1) and (3), but which have not been repaid—

(a) in the case of a province, against future advances for conditional allocations to that province; and

(b) in the case of a municipality, against future advances for the equitable share or conditional allocations to that municipality.

(5) Prior to the National Treasury offsetting any amounts against allocations to a province or municipality in terms of subsection (4), the National Treasury must give the relevant transferring national officer, province or municipality—

(a) written notice of the intention to offset amounts against upcoming advances for allocations; and

(b) an opportunity, within 14 days of receipt of the notice referred to in paragraph (a), to—

(i) submit written representations and other documentary proof that the unspent allocation was either spent in accordance with the relevant framework, or is committed to identifiable projects;

(ii) propose alternative means acceptable to the National Treasury by which the unspent allocations can be repaid to the National Revenue Fund; and

(iii) propose an alternative payment schedule in terms of which the unspent allocations will be repaid to the National Revenue Fund.

(6) A notice contemplated in subsection (5) must include the intended amount to be offset against allocations, and the reasons for offsetting the amounts.

(7) The retention of funds which should revert to the National Revenue Fund in terms of subsections (1) and (3), and which have not been approved by the National Treasury to be retained in terms of subsection (2), constitutes financial misconduct by the receiving officer in terms of section 34.

The process to ensure the return of unspent conditional grants for the 2011/12 financial year will be managed in accordance with section 21 set out above. The following practical arrangements will apply –

Step 1: Municipalities must submit their June 2012 conditional grant expenditure reports according to section 71 of MFMA reflecting all accrued expenditure on conditional grants.

Step 2: When preparing their annual financial statements a municipality must determine what portion of each national conditional allocation it received remained unspent as at 30 June 2012. These amounts MUST exclude all interest earned on conditional grants and all VAT related to conditional grant spending that has been *reclaimed from SARS*, which must be disclosed separately.

Step 3: If the receiving officer wants to motivate in terms of section 20(5)(b) that the funds have been spent or are committed to identifiable projects or wants to propose an alternative payment method or schedule the required information must be submitted to National Treasury by 31 August 2012. ***National Treasury will not consider any rollover requests that are incomplete (see item 5.6 below) or that are received after this deadline.***

Step 4: National Treasury will confirm in writing whether or not the municipality may retain as a rollover any of the unspent funds because they are committed to identifiable projects or whether it has agreed to any alternative payment methods or schedules by 01 October 2012.

Step 5: A municipality must return the remaining unspent conditional grant funds that are not subject of a specific repayment agreement with National Treasury to the National Revenue Fund by 19 October 2012. Failure to return these unspent funds by this date will constitute financial misconduct in terms of section 21(7) of the Division of Revenue Act.

Step 6: Any unspent conditional grant funds that should have been repaid to the National Revenue Fund by 19 October 2012 will be offset against the municipality's November equitable share allocation.

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

5.5 Criteria for the rollover of conditional grant funds

Municipalities may not rollover unspent conditional grant spending in terms of section 28(2)(e) of the MFMA (read together with regulation 23(5) of the Municipal Budget and Reporting Regulations) because they are national/provincial funds. The applicable rollover process is then effected through the national/provincial adjustments budget in November each year. In this regard refer to MFMA Budget Circular 51 for more information.

Section 21 of the 2012 Division of Revenue Act requires that any conditional grants which are not spent at the end of the municipal financial year must revert to the National Revenue Fund, unless the receiving officer proves to the satisfaction of National Treasury that the unspent allocation is committed to identifiable projects, in which case the funds may be rolled over.

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

1. A formal letter addressed to the National Treasury requesting the rollover of unspent conditional grants in terms of section 20(2) of the 2011 of DoRA;
2. List of all the projects that are linked to the unspent conditional grants;
3. Evidence that work on each of the projects has commenced, namely either of the following:
    a. Proof that the project tender was published and the period for tender submissions closed before 30 June; or
    b. Proof that a contract for delivery of the project was signed before 30 June.
4. A progress report on the state of implementation of each of the projects;
5. The amount of funds committed to each project, and the conditional allocation from which the funds come from; and
6. An indication of the time-period within which the funds are to be spent.

If any of the above information is not provided or the application is received by National Treasury after 31 August 2012, the application will be declined.

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

1. Compliance with the in-year reporting requirements in sections 71 and 72 of the MFMA and section 12 of the 2012 DoRA, including the municipal manager and chief financial officer signing-off on the information sent to National Treasury;
2. Submission of the pre-audit Annual Financial Statements information to National Treasury; and
3. Accurate disclosure of grant performance in the pre-audit Annual Financial Statements.

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

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

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

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

5.7 Project management costs and MIG

The Municipal Infrastructure Grant (MIG) framework in the 2012 Division of Revenue Bill provides that a maximum of five per cent may be used for project management costs that are directly related to infrastructure projects. Municipalities can therefore reflect a maximum of five per cent of the MIG allocation on their Budget Financial Performance (operational budget). This will be reflected on Table SA18 under Operating Transfer and Grants, and against 'Transfers recognised – operational' on Table A4. However, the expenditures to be funded from this five per cent must be directly related to the planning and management of infrastructure projects and be of such a nature that they would not normally be capitalised.

A minimum of 95 per cent of the MIG allocation ***must*** be appropriated on the municipality's capital budget (Table A5).

5.8 Budgeting for the EPWP Grant

The EPWP Grant has been reconfigured in the 2012/13 financial year to now be a schedule 6 grant. Municipalities are required to reflect the EPWP allocation in their budget because the gazetted amounts of the programme will flow directly to municipalities. The municipality should therefore budget for the grant in the same way as it budgets for all other conditional grants.

5.9 Municipal Disaster Grant

Section 8 of the 2012 Division of Revenue Bill provides for a schedule 8 type of grant. The purpose of this grant is to enable government to respond immediately to any disasters. The allocation for this grant will be managed by the National Disaster Management Centre in the Department of Co-operative Governance. After a disaster is declared funds can now be transferred to municipalities without the need to *Gazette* the transfers beforehand.

5.10 Budgeting for Schedule 7 grants – allocations in-kind

Schedule 7 of the Division of Revenue Act sets out the national allocations-in-kind to municipalities for designated special programmes. The national departments managing these programmes can do so in three different ways:

1. The national department may choose to transfer some of the funds to the municipality to spend on designated projects. This must be done in terms of an agency agreement. If the designated project involves current/operating expenditure then the funds must be reflected on Table A4 under 'agency services'. If the designated project involves the building of municipal infrastructure then the funds must be reflected on Table A4 as 'contributions recognised - capital', and on Table A5 as 'public contributions and grants'. The spending is reflected on the municipality's capital budget and the assets created would be capitalised as normal.
2. The national department spend the funds within the municipality's area, but ownership of the assets does not get transferred to the municipality. For instance the INEP funds could be transferred to Eskom, and Eskom retains ownership of the assets. And the assets created with the regional bulk infrastructure grant could be transferred to a water board.
3. The national department can spend the funds on infrastructure projects which they manage directly. They can then enter into an agreement the municipality to transfer the assets to the municipality. The receipt of the assets is reflected on Table A4 'contributed assets', and is capitalised directly (not via the municipality's capital budget). The recognition of 'contributed assets' is especially useful in understanding the future maintenance obligations a municipality is accepting.

Each municipality that is a beneficiary of a Schedule 7 allocation-in-kind should contact the relevant national transferring officer in the responsible nation department to find out from them how they intend managing the use of these allocations, and whether they intend the municipality to take ownership of the resultant assets, and therefore have to budget for the related operational costs.

6 The Municipal Budget and Reporting Regulations

National Treasury has released Version 2.4 of Schedule A1 (the Excel Formats). This version incorporates substantial changes (see Annexure A). Therefore ALL municipalities MUST use this version for the preparation of their 2012/13 Budget and MTREF to be tabled on 31 March 2012.

Download Version 2.4 of Schedule A1 by clicking HERE

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

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

6.1 Assistance with the compilation of budgets

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

Municipalities in…	Responsible NT officials	Tel. No.	Email
Eastern Cape	Thulani Mandiriza Ansie Myburgh	012-395 6640 012-315 5173	Thulani.Mandiriza@treasury.gov.za Ansie.Myburgh@treasury.gov.za
Free State	Vincent Malepa Kgomotso Mokienie	012-315 5539 012-315 5866	Vincent.Malepa@treasury.gov.za Kgomotso.Mokienie@treasury.gov.za
Gauteng	Nozipho Molikoe Nonhlanhla Motaung	012-395 5662 012-315 6051	Nozipho.Molikoe@treasury.gov.za Nonhlanhla.Motaung@treasury.gov.za
KwaZulu-Natal	Kavitha Ruplal Johan Botha	012-315 5700 012-315 5171	Kavitha.Ruplal@treasury.gov.za Johan.Botha@treasury.gov.za
Limpopo	Bernard Mokgabodi Sifiso Mabaso	012-315 5936 012-315 5952	Bernard.Mokgabodi@treasury.gov.za Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Jordan Maja Anthony Moseki	012-315 5663 012-315 5174	Jordan.Maja@treasury.gov.za Anthony.Moseki@treasury.gov.za
Northern Cape	Marli J van Rensburg Stephina Lekgwathi	012-315 5303 012-315 5015	Marli.Jansenvanrensburg@treasury.gov.za Stephina.Lekgwathi@treasury.gov.za
North West	Willem Voigt Sadesh Ramjathan	012-315 5830 012-315 5101	Willem.Voigt@treasury.gov.za Sadesh.Ramjathan@treasury.gov.za
Western Cape	Vuyo Mbunge Kevin Bell Sonwabise Lupiwana	012-315 5661 012-315 5725	Vuyo.Mbunge@treasury.gov.za Kevin.Bell@treasury.gov.za Sonwabise.Lupiwana@treasury.gov.za
Technical issues with Excel formats	Ilze Baron Conrad Barberton	012-395 6742 012-315 5117	Ilze.Baron@treasury.gov.za Conrad.Barberton@treasury.gov.za

6.2 Budget compliance and benchmarking processes

National Treasury and the provincial treasuries will again assess all the municipalities' tabled budgets against the Compliance Checklist. Where there is substantial non-compliance municipalities will be required to re-table their budgets in council, otherwise municipalities will be expected to make the necessary improvements prior to tabling the budget for approval by 1 June 2012.

In addition, the National Treasury and provincial treasuries will be conducting benchmark budget hearings on the municipalities' tabled budgets during April and early May 2012 to assess whether the budgets are realistic, sustainable and relevant, and the extent to which they are funded in accordance with the requirements of the MFMA. In this regard, National Treasury will communicate further with the non-delegated municipalities, while the provincial treasuries will communicate with their respective delegated municipalities.

6.3 Certification that budget is correctly captured

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

To eliminate this bad practice, National Treasury hereby requests the accounting officer of each municipality in terms of the section 74 of the MFMA to provide a signed certificate by no later than 15 July 2012 certifying that:

1. The adopted annual budget has been captured on the municipality's financial system, and that there is 100 per cent agreement between the budget on the system and the budget adopted by council;
2. That the adopted annual budget on the municipality's financial system is locked; and
3. That the municipality has in place controls to ensure that the budget captured on the financial system can only be changed in accordance with:
    a. a virement authorised by the municipal manager, or duly delegate official, in terms of a council approved virements policy; and
    b. an Adjustments Budget approved by council.

A template of the certificate is available on National Treasury' website at:
http://mfma.treasury.gov.za/Return_Forms/Pages/default.aspx

7 Budget process and submissions for the 2012/13 MTREF

Over the past number of years there have been significant improvements in municipal budget processes. Municipalities are encouraged to continue their efforts to improve their budget processes based on the guidance provided in MFMA Circulars 10, 19, 28 and 31 as well as the new regulations.

Once more, municipalities are reminded that the IDP review process and the budget process should be combined into a single process.

7.1 Submitting budget documentation and schedules for 2012/13

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

- Section 22(b)(i) of the MFMA requires that ***immediately*** after an annual budget is tabled in a municipal council it must be submitted to the National Treasury and the relevant provincial treasury in both printed and electronic formats. The deadline for such submissions is Tuesday, **10 April 2012**.
- Section 24(3) of the MFMA, read together with regulation 20(1), requires that the approved annual budget must be submitted ***within ten working days*** after the council has approved the annual budget. So if the council only approves the annual budget on 30 June 2010, the final date for such a submission is Thursday, **13 July 2012**, otherwise an earlier date applies.

The municipal manager must submit:

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

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

In the event that the file size exceeds 4 MB then please send it to lgbigfiles@gmail.com.

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

For couriered documents	For posted documents
Ms Linda Kruger	Ms Linda Kruger
National Treasury	National Treasury
40 Church Square	Private Bag X115
Pretoria, 0002	Pretoria, 0001

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

7.2 Budget reform returns to the Local Government Database for publication

For publication purposes, municipalities are still required to use the Budget Reform Returns to upload budget and monthly expenditure to the National Treasury Local Government Database. *The old formats may not be used to submit 2012/13 budget information*. All municipalities must migrate to using the aligned version of the electronic returns. All returns are to be sent to lgdatabase@treasury.gov.za.

Returns for the 2012/13 budget must be submitted to the Local Government Database by **20 *July 2012***.

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

7.3 Publication of budgets on municipal websites

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

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

7.4 Publication of municipal budgets on National Treasuries website

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

1. The Approved Budget, which is the municipality's budget in the format of Schedule A as approved by council (hard copy).

2. Schedule A1, which is the electronic version of the budget Tables A1 to A10, and supporting tables.
3. The Database budgets, which is the municipal budget generated from the information the municipality submits in the Budget Reform Returns.

The information in the Schedule A1 and the Database budget returns MUST reconcile with the Approved Budget as this is the budget that council has adopted and is therefore the legal basis for all revenue collection and expenditure activities within the municipality. In 2011/12, National Treasury confirmed that 118 municipal budgets were properly aligned when the information was published on National Treasury's website.

This process of ensuring these three sources of budget information reconcile is referred to as the Budget Verification Process. Municipalities must ensure that all these three sources of information are aligned upon finalising their budgets, and when submitting their budget information to the provincial treasuries and National Treasury. The provincial treasuries and National Treasury will again check for this alignment before publishing the municipal budgets in November 2012.

Contact

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Post	***Private Bag X115, Pretoria 0001***
Phone	***012 315 5009***
Fax	***012 395 6553***
Email – General	***mfma@treasury.gov.za***
Website	***www.treasury.gov.za/legislation/mfma***

JH Hattingh
Chief Director: Local Government Budget Analysis
16 March 2012

Annexure A – Changes to Schedule A1 – the 'Excel formats'

As noted above, National Treasury has released Version 2.4 of Schedule A1 (the Excel Formats). It incorporates the following changes:

No.	Sheet	Amendment	Reason
1	Org. structure	Sheet appearance has been aligned to that of the 'Instructions' and 'Start pages'. Vote and sub-vote structures have been linked to A3A and A5A, based on the selected votes and sub-votes on the 'Org structure' page.	Facilitate easier completion of sheets
2	A5A	Under the 'multi-year capital' section, the budget columns have been modified to simplify the completion of multi-year allocations	See paragraph 4.2 above
3	A8	Calculation of 'other working capital' has been modified.	Correction
4	SA1	Ten lines have been added to accommodate 'other revenue'	Correction
5	SA1	List of remuneration categories has been standardized (see also SA22)	To align with the draft SCOA
6	SA1	Detail on 'depreciation and asset impairment' has been extended to include 'depreciation resulting from revaluation of PPE'	See paragraph 4.3 above
7	SA1	Detail on 'transfers and grant' has been added to reflect cash and non-cash transfers on grants. This detail is linked to a similar change on SA21	See paragraph 6.8 above
8	SA3	The following Reserves have been deleted: (1) Capitalisation, (2) Government Grant and (3) Public contributions and donations.	Correction to align with GRAP
9	SA8	The following indicators have been deleted: (1) Borrowing to Asset ratio, (2) Debt to Equity ratio and (3) Provisions not Funded	They are not useful or misleading when it comes to analyzing municipal finances.
10	SA8	The following indicators have been added: (1) Capital Charges to Own Revenue and (2) Creditors to Cash and Investments.	These indicators are useful when it comes to analyzing municipal finances.
11	SA9	Income categories based on the Statistics SA Household Survey and Census 2011 have been inserted, as well as an indicative poverty line.	The aim is to align this information with Stats SA data, which should be the main source municipalities use for this information. The indicative poverty line is to start the process of ensuring indigents policies move from the same basis.
12	SA9	There is a new section providing detail to Table A10 on service delivery as follows: • Total Municipal Services, • Municipal In-House Services, • Municipal Entity Services; and • Services Provided by External Mechanisms.	See paragraph 6.10 above.
13	SA12&13	SA12&13 have been split into three separate sheets as follows: (1) SA12a - Property Rates by category for the current year. (2) SA12b - Property rates by category for the budget year. (3) SA13 - Service Tariffs by category	To facilitate the collection of consistent information on municipal rates and domestic tariffs.
14	SA14	References have been amended to provide quantitative indicators of the different household profiles.	To ensure the sample household bills are consistent across all municipalities.

No.	Sheet	Amendment	Reason
15	SA16	Additional columns have been added.	To gather information required in terms of the Municipal Investment Regulations.
16	SA17	An additional section has been added below the original table to facilitate more detailed reporting on 'Unspent Borrowing', as reported on A8 (linked)	To gather information related to the rollover and offsetting on unspent conditional grant funds.
17	SA21	Cash and non-cash transfers have been separated on SA21, and linked to SA1	See paragraph 6.8 above
18	SA22	List of remuneration categories has been standardized (see also SA1)	To align with the draft SCOA
19	SA30	Line items have been aligned to terminology used in A6 and A7	Correction
20	SA34b and SA34c	Ratios shown on A9 and MFMA Circular 55 added to SA34b and c, as appropriate.	To facilitate analysis of budgeting for renewal and repairs and maintenance
21	SA34d	SA34d, Depreciation by Asset Class has been inserted.	To facilitate detailed analysis of budgeting for renewal and repairs and maintenance by asset class over a period of time.
22	SA36	An additional column has been added.	To monitor compliance with MFMA section 19(1)(b) and MBRR Regulation 13, concerning the appropriation of funds to new individual projects during the financial year.
23	SA36 & SA37	(1) An additional column has been added where municipalities will be required to enter GPS co-ordinates (correct to seconds) for all listed projects. (2) Drop-down boxes have been added to facilitate the completion of Asset classes and sub-classes	Facilitate monitoring and tracking