Western Cape Government

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THE MAYOR, BITOU MUNICIPALITY: MR D SWART
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MUNICIPAL BUDGET CIRCULAR FOR THE 2022/23 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK

1. PURPOSE

The purpose of this circular is to:

- provide the economic and fiscal context that should be considered by municipalities when compiling the 2022/23 Medium Term Revenue and Expenditure Framework (MTREF);
- outline the legislative requirements guiding the tabling of the 2022/23 MTREF Budgets and accompanied budget documentation; and
- remind municipalities of additional upcoming reporting responsibilities.

2. STRATEGIC CONTEXT

Economic and Fiscal Environment

The 2022 Strategic Integrated Municipal Engagement/ Local Government Medium Term Expenditure (SIME/ LG MTEC) process will take place amidst national and provincial economic recovery following sharp economic contractions in 2020. Based on historical data since1960, South Africa experienced its steepest decline in economic output with a contraction of 16 per cent from the first to the second quarter of 2020, which was largely due to the strict COVID-19 lockdown. This resulted in an estimated 6.4 per cent contraction in the national GDP for 2020. National Treasury (NT)[1] expects a real economic growth rate of 5.1 per cent in the country for 2021 as the economy rebounds.

National real GDP growth is projected at 1.8 per cent in 2022, 1.6 per cent in 2023 and 1.7 per cent in 2024. The Western Cape economy has outperformed that of South Africa as a whole but has not substantially diverged from the national trajectory. The Provincial economy contracted by 5.5 per cent in 2020 and recovered with an estimated growth of 5.3 per cent in 2021 and a forecast of 1.4 per cent growth in 2022. The rebound is clouded by the COVID-19 pandemic, the discovery of new variants which compromise travel to and from South Africa and slow progress in the national vaccine rollout which reinforces uncertainty and poses risks to economic recovery.

[1] National GDP growth rates are projected by the National Treasury within MFMA Circular No. 112

Other risks to the economic environment include but are not limited to the slow implementation of structural reforms which continues to have a negative impact on business confidence and private investment; supply chain and electricity supply constraints, which could worsen over the short term; deceleration in global demand and declines in commodity prices which could have a negative impact on local industry.

The fiscal environment faces the risk of a further deterioration in public finances which could trigger credit rating downgrades. Cost of Employment pressures, the implementation of the non-pensionable salary increases for Public Servants of salary levels 1 to 12 and the Social Relief Distress Grant (including a potential introduction of a basic income grant) further compromise fiscal consolidation measures. While the fiscal framework does not currently include any additional support to state-owned enterprises, the poor financial condition and operational performance of several of these entities remain a large contingent risk. Ageing infrastructure and outdated technology, vandalism, continued population growth and increasing demand for services require resources that are not met with sufficient increases in revenue. From a governance perspective, an unprecedented number of municipalities have hung councils, which poses risks to municipal operations and service delivery. Significant job losses during this period of economic decline impacts on the affordability of municipal services and therefore municipalities' ability to collect revenue and increases demand for free basic services. Social unrest and challenges such as poverty, crime, low levels of skills, and substance abuse also require intervention.

Since the 2008 global financial crisis, economic growth has trended downwards, resulting in persistent shortfalls in tax revenue that have not been matched by appropriate cost containment measures to reduce expenditure. This in turn has led to wider budget deficits, higher borrowing and a rapid increase in the ratio of debt to GDP. The debt servicing costs are growing at a pace that is faster than the rate of GDP growth, and this ratio will continue to increase until government runs a sufficiently large primary budget surplus. The current prime lending rate is 7.25 per cent. There appears to be consensus in the private sector that there will be quarterly increases in interest rates during 2022 as the Monetary Policy Committee of the South African Reserve Bank is determined to contain inflation and maintain price stability. This will reduce the disposable income of households as interest on loans will increase. It also impacts adversely on municipalities' ability to service debt and take up new loans to fund infrastructure programmes. Headline inflation is currently at a five-year high but is expected to remain between the 3 to 6 per cent target range over the 2022/23 MTEF; at 4.0 per cent for 2022/23, 4.4 per cent for 2023/24 and 4.5 per cent for 2024/25.[2]

Considering the fiscal constraints, maximising the value of spending is crucial. Government needs to contain costs, especially consumption related spending, exercise prudent and compliant financial management, and eliminate the waste of public funds and resources. Compensation of employees remains a major cost pressure. It remains critical for municipalities to adhere to compensation ceilings, manage headcounts proactively and conduct staff audits to ensure the staff complement is aligned to the approved organogram. It will also be critical for municipalities to build risk management into the budget process, i.e., mitigating, identifying and protecting the institution against potential risks. These will assist government to improve its fiscal position.

2 MFMA Circular 112

To combat the socio-economic challenges highlighted above, the Western Cape Recovery Plan themes of Jobs, Safety and Wellbeing remain at the centre of the response to address the impact of COVID-19 and lay the foundation for faster long-run economic growth and poverty reduction in the Province. It is underpinned by the Vision Inspired Priorities within the Provincial Strategic Plan 2019 - 2024. Local Government also has a vital role to play in this regard. Consideration should be given as to how value can be unlocked from good governance. The real challenge is to get beyond stability and for WCG to partner with municipalities to leverage our governance advantage to drive the recovery and growth.

Municipalities should make conscious efforts to maximize service delivery given these social, socio-demographic, economic and fiscal challenges. Municipalities are advised to consult the 2021 Socio-economic profiles[3] and Municipal Economic Review and Outlook (MERO)[4] for municipal specific socio-economic information. The MERO, which was tabled by the Minister of Finance and Economic Opportunities on 6 December 2021, will be distributed to various business forums across the Province and rolled out via the District Coordination Forums. These source documents as well as the above-mentioned macro-economic forecasts should be considered when preparing the 2022/23 MTREF budgets and plans.

3. NATIONAL TREASURY AND PROVINCIAL TREASURY GUIDELINES

3.1 Context

- Municipalities are advised to consult the latest Budget Circular, MFMA Circular 112 released on 6 December 2021.
- Municipalities MUST include the National and Provincial Treasury Budget Circulars as part of the source documents consulted in the preparation of the 2022/23 MTREF Budget documents and table it as part of the budget documentation in the Municipal Council.

3.2 Legislative Requirements: Tabling of the 2022/23 Budgets

- As per section 16(1) of the Local Government: Municipal Finance Management Act (Act No. 56 of 2003) (MFMA), the council of a municipality must approve an annual budget before the start of the financial year. In order for a municipality to comply with section 16(1), the mayor must table the annual budget at a council meeting at least 90 days (end of March 2022) before the start of the budget year as required by section 16(2) of the MFMA.
- Should it be foreseen that a municipality will not be able to comply with section 16(2), the mayor must, as per section 27(1) of the MFMA, inform the MEC for Finance in the province, in writing, of such impending non-compliance.
- Section 27(2) of the MFMA allows the MEC of Finance, on application by the mayor, and if good cause is shown, to extend any time limit or deadline pertaining to the tabling of the budget, provided that such extension does not compromise compliance with section 16(1). Municipalities must however make every effort to ensure that their budgets are tabled by 31 March 2022. This timeline is required to enable effective participation in the budget process by all stakeholders, including Council and the public; and for provincial departments to fulfil their oversight role. Provincial Treasury (PT) will therefore not recommend that an extension be granted unless exceptional circumstances exist.

3 https://www.westerncape.gov.za/provincial-treasury/socio-economic-profiles-2021

4 https://www.westerncape.gov.za/provincial-treasury/investor-economic

- In the event of non-compliance (that the budget was not timeously tabled by the end of March 2022), the mayor must, according to section 27(3) of the MFMA, inform the municipal council, the MEC for Finance and the National Treasury, in writing, of such non-compliance and any remedial or corrective measures the municipality intends to implement to avoid a recurrence. This requirement is dependent on, and subject to, any extension provided by the MEC in terms of section 27(2).

- Notification of impending and/or actual non-compliance with a time provision relating to the annual budget must be done in terms of Chapter 4 of the Municipal Budget and Reporting Recommendations (MBRR) and be in the format outlined in Schedule G of the MFMA.

- Failure to comply with section 16(2) of the MFMA, will compromise a municipality's ability to approve the budget before the start of the financial year as required by section 16(1) of the MFMA. Should a municipality not approve its budget by the start of the new municipal financial year (i.e. 1 July 2022), the Provincial Executive must intervene in terms of section 136(3) of the MFMA and section 139(4) of the Constitution. The Provincial Executive will accordingly take corrective measures which include, but are not limited to, placing a temporary hold on the Municipality's bank account, appointing an administrator, approving a temporary budget, or even dissolving council. Further guidance on this will be provided in a subsequent circular.

3.3 Development and Adoption of IDPs

The date of the 2021 Local Government elections presented a challenge for incoming councils to adopt new Integrated Development Plans (IDPs) by May 2022 within the legislated timeframes. The results from a survey conducted by the Department of Local Government indicates that many newly elected municipal councils plan to adopt the IDP of their predecessor in terms of section 25(3) of the Local Government: Municipal System Act, Act No. 32 of 2000 (MSA) and to only adopt a new IDP in their second year of office to facilitate thorough interrogation and extensive consultation for the finalisation of the new five-year strategy. Some municipalities are however planning to adopt new term of office IDPs in May 2022 despite the tight timelines.

For further guidance municipalities are referred to the joint National Treasury/Department of Cooperative Governance/South African Local Government Association (NT/DCoG/SALGA) Joint Circular No.1 (20 October 2021) on the transitional measures in relation to the IDP process and to, if any further guidance or assistance is required in this regard, contact the IDP Directorate of the Department of Local Government.

3.4 Ensuring Municipal Sustainability through a funded budget

In the current economic and fiscal environment, municipalities may face financial strain for several reasons including rising demand for basic and free basic services, revenue collected being hampered due to reductions in household income, and below inflation increases in transfers from national government.

As per section 18 of the MFMA, municipalities should nevertheless ensure that their budgets are funded from realistically anticipated revenue to be collected, cash backed accumulated funds from the previous year as well as borrowed funds to be utilised for capital projects.

To ensure financial sustainability each Municipality 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 together with MFMA Circular No. 97 (31 July 2019);
- Ensuring value for money through the procurement process and promoting sustainable public procurement;
- The affordability of providing free basic services to all households;
- Any changes to functional assignments between spheres and/or intergovernmental funding arrangements for these services must be assessed for their long-term impact on municipal financial sustainability.
- Strictly control the use of costly water tankers and fix the water infrastructure to enable the sustainable provision of water;
- Curbing the consumption of water and electricity by indigent households to ensure that they do not exceed their allocation without paying for additional consumption;
- Prioritising the filling of critical vacant posts, especially those linked to the delivery of basic services. Municipalities should also carefully consider whether non-critical vacancies need to be filled, or whether savings can be achieved by freezing some of these posts; and
- Ensuring that the budget is aligned to the municipality's Municipal Spatial Development Framework (MSDF), informed by its Capital Expenditure Framework, where this is in place, and is responsive to the municipality's identified risks.

The following sections contain additional guidelines regarding revenue and expenditure to ensure credible and sustainable budgeting.

3.4.1 Revenue

a) Municipalities are advised to use the indicative numbers presented in the 2021 Division of Revenue Act (DoRA) to compile their 2022/23 MTREF. In terms of the outer year allocations (2023/24 and 2024/25 financial years), it is proposed that municipalities conservatively limit funding allocations for conditional grants to the indicative numbers as presented in the 2021 DoRA for 2023/24. The DoRA is available at:

http://www.treasury.gov.za/documents/national%20budget/2021/default.aspx

The 2021 national Medium Term Budget Policy Statement (MTBPS) gave an estimation of growth in equitable share and conditional grants for local government over the 2022/23 MTREF. While these numbers may still change when the Budget is tabled in February, the indication is that following growth in the equitable share of only 0.6 per cent (in nominal terms) in 2023/24, the equitable share will increase by 4.5 per cent in 2024/25. Although municipalities can use this growth rate to estimate their equitable share allocation for 2024/25, cognisance should be taken that NT has taken the approach to gradually decrease the number of indigent households subsidised as part of the equitable share.

Table 1: Local Government Intergovernmental Transfers for the 2022 MTREF

R billion & per cent	2021/22	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25
	Revised	Medium-term estimates			Growth rates		
Local government	**137,6**	**146,3**	**148,9**	**155,4**	**6,4%**	**1,8%**	**4,3%**
Equitable share	78,0	83,1	83,6	87,3	6,5%	0,6%	4,5%
General fuel levy sharing with metropolitan municipalities	14,6	15,3	15,4	16,1	4,9%	0,6%	4,5%
Conditional grants	45,0	47,9	49,9	51,9	6,5%	4,2%	4,0%
Main budget expenditure	**1 893,1**	**1 897,9**	**1 936,7**	**2 039,1**	**0,3%**	**2,0%**	**5,3%**
Percentage shares							
National departments	50,6%	48,7%	48,3%	48,2%			
Provinces	40,9%	42,0%	42,0%	42,1%			
Local government	8,5%	9,3%	9,7%	9,7%			

Source: 2021 National MTBPS

Municipalities are advised to consult section 2.1 of MFMA Budget Circular 112 for detail regarding the changes to local government allocations. All allocations must be updated once the national Minister of Finance tables the 2022 DoRA.

b) Municipalities should comply with Section 74(2) of the MSA by setting cost-reflective tariffs. This ensures that municipalities set tariffs that enable the recovery of the full cost of providing the service. Municipalities should pay careful attention to tariff increases across all consumer groups. Municipalities are further encouraged to utilise the tariff setting tool referenced in MFMA Circular 98, item 4.2. The NT Municipal Costing Guide is available on the link below:

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

Municipalities should also 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 inflation rates have been provided in section 2 above. Municipalities must justify any increases in excess of the projected inflation rate for 2022/23 and include details of their revenue growth assumptions for the different service charges within the 2022/23 budget narrative.

c) It is essential that municipalities reconcile their most recent valuation roll data to that of the billing system to ensure that anticipated revenue from property rates are accurate. The recent valuation roll data can be reconciled with the billing system and with the Deeds Office Registry as a further test. In accordance with the MFMA Circular No. 93 (7 December 2018), municipalities are once more requested to submit their annual reconciliation of the valuation roll to the billing system to NT by no later than 4 February 2022. The above information must be uploaded by the municipality's approved registered user(s) using the GoMuni Upload Portal at: https://lguploadportal.treasury.gov.za/.

d) Based on 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), a municipality has the right to disconnect the water service in the event of non-payment, or in the case of indigent households, restrict usage to only the national policy limit of 6 kilolitres of water per month.

e) On 3 December 2021, the Gauteng High Court ruled that the National Energy Regulator of South Africa (NERSA) should process Eskom's application for Electricity Retail Tariffs and Structure Adjustment (ERTSA). Eskom has requested an average increase of 20.5 per cent in 2022/23, 15 per cent in 2023/24 and 10 per cent in 2024/25. The High Court set for the National Energy Regulator to make their decision on the ERTSA by 25 February 2022. The Municipal Benchmark tariff will only be finalised once the decision on the ERTSA is made, as this is the municipal bulk tariff input. NERSA's upcoming *Municipal Tariff Guidelines Increases, Benchmarks and Proposed Timelines for Municipal Tariff Approval Process for the 2022/23 financial year* publication should be consulted before the approval of the final budgets.

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

g) Section 216(2) of the Constitution requires that NT enforce compliance with the measures established to ensure both transparency and expenditure control in each sphere of government and may stop the transfer of funds to an organ of state if that organ of state commits a serious or persistent material breach of those measures. The criteria for the release of the Equitable Share instalments for the 2022/23 municipal financial year are outlined in section 8.1 of MFMA Budget Circular 112. Western Cape municipalities are encouraged to maintain their current high level of compliance.

3.4.2 Expenditure

a) 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 so will result in the accounting officer committing an act of financial misconduct which will trigger the application of chapter 15 of the MFMA, read together with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

b) Municipalities are encouraged to budget and ringfence their payment for bulk services and honour their current account payments (inclusive of Eskom) consistently to avoid stringent application of the bulk suppliers' credit control policy. Note that Eskom's payment terms have been extended to 30 days and the interest on overdue accounts is set at 2.5 per cent plus prime interest rate. Furthermore, municipal payments are allocated to capital first and then to interest.

c) 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.

d) Municipalities are encouraged to clear the control accounts monthly 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.

e) To address non-payment to Eskom, National Cabinet endorsed the recommendation that a smart prepaid solution for all municipalities be explored. NT, through the Office of the Chief Procurement Officer (OCPO), will soon facilitate a MFMA Circular No. 112 transversal contract to standardise prepaid smart meter solutions for electricity that align to minimum and critical technical specifications for local government. If a municipality or entity is currently in the process of procuring any smart meter solution or is planning to, it is cautioned against proceeding prior to the OCPO having issued and awarded the transversal prepaid smart meter Terms of Reference (ToR). With immediate effect, the municipality must obtain NT'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. Contact Mr Sadesh Ramjathan (Sadesh.Ramjathan@treasury.gov.za) for NT inputs on procurement of similar solutions.

f) Municipalities need to develop a Long-term Financial Model (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 a 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 will provide guidance to all municipalities on developing and implementing LTFM's and strategies, based on the pilot projects in this regard. The LTFM must be integrated with the MSDF's Capital Expenditure Framework, where this is in place.

g) Municipalities are advised to develop a Capital Expenditure Framework, linked to its Long-Term Financial Plan (LTFP) and LTFM, that sets out a 10-year capital expenditure portfolio of projects that are prioritised, sequenced, and within the affordability envelop defined by the LTFM and LTFP. This will guide capital expenditure over the short, medium, and long term, and assist a municipality in allocating its capital budget to capital projects that align to the municipal vision and strategies.

h) The Salary and Wage Collective Agreement for the period 1 July 2021 to 30 June 2024, as 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 the agreement shall receive with effect from 1 July 2022 and 1 July 2023 an increase based on the projected average CPI percentages for 2022 and 2023. 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.

i) 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 DCoG. Municipalities should also consider guidance provided above on salary increases for municipal officials during this process. Any overpayment to councillors contrary to the upper limits as published by the Minister of Cooperative Governance and Traditional Affairs will be irregular expenditure in terms of section 167 of the MFMA and must be recovered from the councillor(s) concerned.

3.4.3 Implementation of Municipal Cost Containment Regulations

Provincial Treasury has a legal responsibility to advocate for fiscal discipline and financial prudency, the need for which cannot be over-stated in the current fiscal and socio-economic environment. The implementation of Municipal Cost Containment Regulations is crucial in this regard.

An effective cost containment program requires the active oversight of management, as well as a budgeting process that yields reasonable expenditure targets. A downside of cost containment is that management focuses too much on the cost side of the business, rather than pursuing new revenue opportunities. A delicate balancing act must be maintained between operational efficiency and the long-term sustainability of an institution.

Most non-metro municipalities are not budgeting on a quarterly basis as per Annexure D of MFMA Circular 97 which results in under reporting and compromise oversight efforts by Council, National Treasury and the relevant provincial treasury, to curb non-essential spending. Observations as per 2021 Quarter 1 reporting outcomes, are that non-metro municipalities allocated 46.8 per cent of the budget towards *Other related Expenditure Items* in terms of the Municipal Cost Containment Regulations. This requires a microscopic view to prevent unnecessary budgeting and spending by some municipalities as a result of the possible vagueness of this section in the Regulations.

Municipalities are encouraged to pay attention to the quarterly reporting requirements since the maturity in the 3rd year of the Municipal Cost Containment Regulations should be at a level where budget cuts and expenditure ceilings on certain items on the item, *Other related Expenditure Items* can be identified.

3.4.4 Addressing Unfunded Budgets

a) All tabled municipal budgets will be assessed by PT to determine whether they are funded. This assessment uses a Tool prescribed by NT. An assessment of the funding status will be provided to each municipality in their SIME assessment. Further information will be provided to any municipality found to have an unfunded budget on the factors that led to this status as well as advice on how to correct this.

b) Municipalities are reminded that they should make changes to ensure that they adopt a funded budget for all three years of the 2022/23 MTREF period. If a municipality fails to adopt a funded budget, a credible Budget Funding Plan must be developed. This plan must be tabled and adopted by Council and be submitted to National and Provincial Treasury with its tabled and adopted budget in terms of section 24 (3) of the MFMA. PT is available to review and provide guidance on the credibility of draft Budget Funding Plans.

c) Where municipalities have adopted an unfunded budget without a credible Budget Funding Plan, they will be required to correct the funding plan and ensure that it is credible. The credible funding plan must be immediately adopted by the municipal council, and the changes to the budget must be effected in the mid-year adjustments budget to ensure compliance with section 18 of the MFMA.

3.5 Municipal Standard Chart of Accounts

3.5.1 Release of Version 6.6 of the chart

Version 6.6 was released with MFMA Circular No. 112 and must be used to compile the 2022/23 MTREF budget. As per the mSCOA regulations, each municipality is expected to submit the prescribed supporting data strings containing the required data directly from the financial system using the LG Upload Portal.

The Budget, Adjustments Budget and Section 71 Monthly Reporting Schedules that have been regulated in terms of the MBRR have also been aligned to the mSCOA Chart Version 6.6. The revised MBRR Schedules for the 2022/23 MTREF, and its linkages to the financial and non-financial data strings are available on the link below:

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

Requests for chart changes in the next version of the mSCOA Chart Version 6.6 should be logged on the Frequently Asked Questions (FAQ) database by 31 August 2022. Requests will be considered by the FAQ Committee, mSCOA Technical Committee and the mSCOA Steering Committee for the review of the Chart to be released by December 2022.

3.5.2 Budgeting and Reporting through MSCOA

a) The credibility of mSCOA data strings remains a concern, although improvements have been observed in some areas. The areas of concern include:

- The incorrect use of the mSCOA Chart and Segments, balance sheet budgeting, movement accounting and basic municipal accounting practices.
- Some municipalities are either not budgeting, transacting, and reporting directly from their core financial system; have not purchased all the modules of their core financial system; or have not upgraded to the Enterprise Resource Planning (mSCOA enabling) Version of their Financial System.
- Municipalities are not locking their adopted Budgets and their Financial Systems at month-end to ensure prudent financial management. The Local Government Database and Reporting System will therefore lock all submission periods within the reporting period at the end of each quarter to enforce municipalities to lock their Budgets and close their Financial System at month-end in 2022/23.

Municipalities should refer to the guidance provided in the mSCOA circulars issued by NT to classify their transactions correctly.

b) Municipalities are required to submit the C-schedule, primary bank statement, bank reconciliation, quality certificate, monthly budget statement and trial balance to the GoMuni Upload portal monthly in PDF format.

c) The trial balances should from 1 July 2022 include the following minimum information: the mSCOA item description; balance brought forward; movement debit; movement credit; and balanced closing balance at the end of the document. Furthermore, the name of the municipality, municipal code and relevant period (year and month) must be clearly identified in the submission. Municipalities should ensure that the monthly data string aligns to the trial balance submitted to the GoMuni Upload portal.

d) Municipalities are reminded to record and ring fence all funding and expenditure pertaining to the COVID-19 pandemic when budgeting and transacting in terms of mSCOA Circular No. 9 (9 June 2020). Once NT can draw COVID-19 reports from the mSCOA data strings for the majority of municipalities and the COVID-19 restrictions is lifted as per the Disaster Management Act, 2002 (Act 57 of 2002) and its regulations, the weekly manual reporting will no longer be required.

e) The purpose of the costing segment in mSCOA is to provide for the recording of the full cost for the four core municipal functions as a minimum requirement. The costing segment does not impact on the financial statements and will be recorded as a 'below the line cost' and are recorded in the management accounts to make decisions in formulating tariffs and cost control. Municipalities must refer to the mSCOA Project Summary Document (PSD) for the detailed application of the costing segment.

f) Municipalities are not populating the GPS Coordinates in the IDP/Planning and Budgeting stage for their projects. PRTA, PROR, PRAD Data Strings must be populated including GPS Coordinates. GPS coordinates enhances the identification of location of tangible assets, aids in maintenance and replacement of assets, enhances revenue collection and assists with the location of assets during the audit process. Municipalities must ensure that all projects and infrastructure assets have GPS coordinates. PT will analyse the PRTA, PROR and PRAD data strings for completeness in this regard.

g) Employers must pay 1 per cent of their employees pay to the skills development levy. This is a contribution of 1 per cent of the total amount paid in respect of salaries to employees, which includes overtime payments, leave pay, bonuses, etc. Therefore, this does not constitute employee related cost because it is not a compensation to employees, nor social contributions. Municipalities must ensure that the Skills Development Levy is correctly classified as operational costs as indicated in the PSD.

h) With reference to MFMA Circular 107 (4 December 2020) municipalities were required to implement the new property categorisation framework by not later than 1 July 2021. The mSCOA Chart Version 6.6 makes provision for the new and old framework. However, the old framework will be retired in the next version of the chart and municipalities are advised to implement the new property categorisation framework as legislated. To avoid duplication and overstatement of revenue from property rates municipalities should not use both frameworks.

i) National and Provincial Treasury will assess the 2022/23 MTREF budgets to determine if it is complete, funded and complies with mSCOA requirements. The mSCOA data strings for the tabled (TABB) and adopted (ORGB) budgets will be used for this assessment. To generate an adopted budget (ORGB) data string, the budget must be locked on the financial system by 15 July 2022. Therefore, once the ORGB data string has been generated, errors in the ORGB can only be corrected via the adjustments budget in February 2023. The TABB should 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.

3.5.3 Municipal Financial Systems

a) National Treasury will not be extending the RT25-2016 Service Level Agreements (SLA) for Financial Systems which expired in May 2019. Financial systems procured through this SLA therefore cannot be extended. Municipalities should instead approach the open market to procure a service provider for system support and maintenance. The Municipality may consider the use of long-term contracts in terms of section 33 of the MFMA. Where a municipality has entered an SLA for the provision of system support and maintenance through an open procurement process, the SLA may be extended in terms of section 116(3) of the MFMA.

b) Due to the high financial investment in procuring financial systems, it is not cost effective to change financial systems every 3 to 5 years. Municipalities need not procure a new financial system unless the system being used does not comply with the required business processes and system specifications. As such, the municipal needs must be re-evaluated to ensure that the IT systems in place are still i) compatible with the needs and systems of the municipality, ii) aligned to modern technology and new legislative requirements and iii) cost effective prior to concluding long-term maintenance and support agreements in the event that there are other financial management solutions or systems that may be better or even more cost effective as opposed to the current ones that may be outdated.

3.5.4 Non-compliance with mSCOA Requirements

a) One of the key objectives of the mSCOA reform is to ensure that municipalities are planning, budgeting, transacting and reporting directly on and from integrated ERP systems to have one version of the truth in terms of the reported financial performance. All municipalities and municipal entities had to comply with the mSCOA Regulations by 1 July 2017. Several Regulations and best practices as per the MFMA Circulars have been introduced since the issuing of MFMA Circular No. 80 in 2016. These will be expanded on in 2022/23.

b) If a municipality has not yet achieved the minimum required level of mSCOA implementation, then a detailed action plan (road map) must be developed to indicate how the municipality will fast track the implementation of mSCOA. The action plan should include the system landscape, governance and institutional arrangements, system functionality and the proficiency of municipal officials to use the financial system (see section 5.3 of MFMA Circular 112 for further detail on what should be included in the action plan).

c) The progress against the action plan must be monitored by the municipality's mSCOA Project Steering Committee and should also be reported on at the 2021/22 Mid-year Budget and Performance engagements, the Budget and Benchmark engagements with the National and Provincial Treasury, as well as the SIME engagements. Copies of the action plan and progress reports should also be shared with the National and Provincial Treasury.

4. UPCOMING MFMA REPORTING REQUIREMENTS

4.1 Mid-year Report

a) As per section 72(1) of the MFMA, the Accounting Officer must by 25 January 2022 assess the municipality's financial and non-financial performance for the first half of 2021/22 and submit a report of such an assessment to the mayor as well as National and Provincial Treasury.

b) The Accounting Officer must furthermore make the report public by close of business on 31 January 2022. In turn, the mayor must also in terms of section 54(1)(f) of the MFMA submit the report to the municipal council by 31 January 2022.

c) Electronic versions (PDF and where applicable, Excel) of the report can be e-mailed to MFMA.MFMA@westerncape.gov.za copying in Dian.Cronje@westerncape.gov.za.

4.2 Annual Report

a) In terms of section 127(2) of the MFMA, the mayor is required to table the (draft) annual report in council within seven (7) months after the end of the financial year, i.e., 31 January 2022. Municipalities are encouraged to prepare and submit the annual report in the template as outlined in MFMA Circular No. 63 (26 September 2012).

b) In terms of section 127(5)(b), the annual report must immediately after being tabled in council, be submitted to the Auditor-General, the relevant PT and provincial department responsible for local government in the province. The tabled report can be e-mailed to MFMA.MFMA@westerncape.gov.za.

c) Section 129(1) of the MFMA prescribes that the council of a municipality must consider the Annual Report (as tabled) and by no later than two months from the date on which the Annual Report was tabled, adopt an oversight report containing the council's comments on the annual report.

d) In terms of section 132(2) of the MFMA, the approved annual report and the oversight report must be submitted to the Provincial Legislature within seven (7) days after the adoption hereof.

e) Section 129(2) of the MFMA states that minutes of the council meetings and oversight committee meetings at which the annual report is discussed should be submitted to the AG, PT and the provincial department responsible for local government in the province.

f) In terms of section 121(3)k of the MFMA, which indicates that the annual report of a municipality should include *any other information as may be prescribed*, the municipalities' attention is drawn to Section 13G of the Broad-based Black Economic Empowerment (B-BBEE) Act which requires the municipality to report on their compliance with B-BBEE in their AFS and annual reports. Municipalities were alerted to this requirement in section 4 of Treasury Circular Mun No. 29/2019 (1 November 2019). Compliance in this regard has been lacking. Municipalities are therefore reminded to provide the required information in the completion of the 2020/21 Annual Reports and AFS. The B-BBEE Commission's Explanatory Notice No.2 of 2021 (hereto attached as Annexure A) contains guidelines for completing the information required in terms of section 13G(1) of the B-BBEE Act.

5. KEY DATES OF THE 2022/23 INTEGRATED PLANNING AND BUDGETING PROCESS

Municipalities are urged to consult MFMA Circular 112 for information regarding the budget process and submissions. Provincial Treasury will issue a follow-up circular in which the budgeting process and submission, as well as the tabled budget, IDP and related documentation assessments and SIME engagements will be outlined.

The following key dates should be considered by the Municipality in the 2022/23 IDP and budgeting process.

Dates	Budget Process
25 January 2022	Mid-year Budget and Performance Assessment
31 January 2022	Tabling of Annual Report
28 February 2022	Municipal Main Adjustments Budget
23 February 2022	National Budget Day
8 March 2022	Provincial Budget Day
Latest 31 March 2022	Tabling of Annual Municipal Budget Adoption of Annual and Oversight Reports
Provisionally 25 April – 20 May 2022	SIME Engagements
31 May 2022	Adoption of Annual Municipal Budget

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

Directorate	Official	Tel. No.	Email
MFMA Co-Ordination	Elton Johannes	021 483 4229	Elton.Johannes@westerncape.gov.za
Public Finance	Kim-Kay Neethling	021 483 9186	Kim-Kay.Neethling@westerncape.gov.za
	Isaac Tsie	021 483 6241	Isaac.Tsie@westerncape.gov.za
Budget Office	Malcolm Booysen	021 483 3386	Malcolm.Booysen@westerncape.gov.za
	Kim Engel	021 483 8459	Kim.Engel@westerncape.gov.za
	Shannon Engel	021 483 9198	Shannon.Engel@westerncape.gov.za
	Keith Roman	021 483 5434	Keith.Roman@westerncape.gov.za
Fiscal Policy	Shafeeqa Davids	021 483 9192	Shafeeqa.Davids@westerncape.gov.za
Cash Management	Anthea Paries	021 483 5472	Anthea.Paries@westerncape.gov.za
Accounting	Faez Salie	021 483 4252	Faez.Salie@westerncape.gov.za

Municipalities may also contact the following officials at NT:

	Responsible official	Tel. No.	Email
Western Cape **Cape Town** **George**	Willem Voigt Kgomotso Baloyi Mandla Gilimani	012 315 5830 012 315 5866 012 315 5807	WillemCordes.Voigt@treasury.gov.za Kgomotso.Baloyi@treasury.gov.za Mandla.Gilimani@treasury.gov.za
Technical issues with Excel formats	Sephiri Tlhomeli	012 406 9064	lgdataqueries@treasury.gov.za

6. CONCLUSION

Municipalities are encouraged to consider and apply the contents on this budget circular in the 2022/23 planning and budgeting process.

Please direct any queries regarding this circular to: Malcolm Booysen at Malcolm.Booysen@westerncape.gov.za.

David Savage
2022.01.25
08:49:21 +02'00'

DAVID SAVAGE
HEAD OFFICIAL: PROVINCIAL TREASURY
DATE: