



Reference: RCS/C.5

Private Bag X9165
CAPE TOWN
8000

TREASURY CIRCULAR MUN. NO. 5/2021 (Amended)

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MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT

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TABLE OF CONTENTS

| | |
|---|----|
| 1. INTRODUCTION..... | 3 |
| 2. LEGISLATIVE CONTEXT..... | 3 |
| 3. FISCAL AND ECONOMIC CONTEXT..... | 4 |
| 4. NATIONAL TREASURY AND PROVINCIAL TREASURY GUIDELINES | 6 |
| 5. 2021/22 STRATEGIC INTEGRATED MUNICIPAL ENGAGEMENTS (SIME) PROCESS..... | 10 |
| 6. OTHER MATTERS | 14 |
| 7. CONCLUSION | 15 |

MUNICIPAL BUDGET CIRCULAR FOR THE 2021/22 MTREF AND ASSOCIATED STRATEGIC INTEGRATED MUNICIPAL ENGAGEMENTS: 2021

1. INTRODUCTION

This Provincial budget circular is a follow-up to the Provincial Treasury (PT) Circular 20/2020 issued on 18 December 2020 and should be read in conjunction with National Treasury (NT) MFMA Circular No. 107 and MFMA Circular No. 108 issued on 04 December 2020 and 08 March 2021 respectively.

The purpose of this circular is to:

- Provide guidance to municipalities with the finalisation of the 2021/22 Medium Term Revenue and Expenditure Framework (MTREF) Budgets and accompanied budget documentation, and
- Brief municipalities on the 2021 Strategic Integrated Municipal Engagements (SIME) process and related matters.

2. LEGISLATIVE CONTEXT

The Western Cape Provincial Government (WCG) has institutionalised the Strategic Integrated Municipal Engagements (SIME; previously referred to as LGMTEC) process in fulfilment of its obligations under:

- Sections 5, 22 and 23 of the Local Government: Municipal Finance Management Act (MFMA), Act No. 56 of 2003;
- Chapter 5 of the Local Government: Municipal Systems Act (Act No. 32 of 2000) [MSA];
- Chapter 3 of the National Environmental Management Act (Act No. 107 of 1998) (NEMA); and
- Chapter 4 of the Spatial Planning and Land Use Management Act (Act No. 16 of 2013) (SPLUMA).

The 2021 SIME process will give effect to the "Integrated Work Plan" adopted in 2017. It builds on the 2020 integrated municipal and provincial processes to strengthen alignment between municipal and provincial planning and budgeting and drives the theme of "Integrated service delivery", specifically as municipalities are preparing for the final year of the current five (5) year Integrated Development Planning Cycle.

3. FISCAL AND ECONOMIC CONTEXT

3.1 2021 National Budget

The key highlights of the 2021 National Budget which was tabled by the Minister of Finance, Tito Mboweni on 24 February 2021, are summarised below.

- Government will support economic recovery by extending short-term economic support and undertaking reforms to lower the cost of doing business and stabilize the public finances. While real GDP is expected to grow at 3.3 per cent in 2021 and 2.2 per cent in 2022, the global economic outlook is uncertain; however, additional policy stimulus packages and the successful rollout of COVID-19 vaccines will boost global growth.
- A successful rollout of COVID-19 vaccines will also support economic recovery and global trade. Government will also take steps to promote faster growth by stabilizing electricity supply, supporting industries with high employment potential and undertaking partnerships with the private sector. Operation Vulindlela, a joint initiative of the National Treasury and President's office to rollout economic reforms, will further support the implementation of key structural reforms, however still faster progress is needed to generate an economic recovery.
- To support economic recovery, government will not raise any additional tax revenue in the 2021 budget. The personal income tax brackets and rebates will increase above the inflation rate of 4 per cent. However, government will increase excise duties on alcohol and tobacco by 8 per cent for 2021/22 while inflation-related increases of 15c/litre and 11c/litre will be implemented for the general fuel levy and the RAF levy, respectively, with effect from 7 April 2021. The Unemployment Insurance Fund (UIF) contribution ceiling has been set at R17 711.58 per month from 1 March 2021.
- In response to the spending and economic pressures of the COVID-19 pandemic, the budget deficit has been revised to 14 per cent of GDP in 2020/21. Gross debt increased from 65.6 per cent to 80.3 per cent of GDP for 2020/21. The 2021 Budget also proposes measures to narrow the main budget primary deficit from 7.5 per cent of GDP in the current year to 0.8 per cent in 2023/24. The proposed fiscal framework will stabilize debt at 88.9 per cent of GDP in 2025/26. Over the medium term, debt-service costs are expected to average 20.9 per cent of gross tax revenue.
- Total consolidated spending amounts to R2 trillion each year over the medium term with the bulk of the 2021/22 spending being allocated to learning and culture (R402.9 billion), social development (R335.2 billion) and health (R248.8 billion). The fastest-growing functions over the medium term are economic development, community development and general public services. The majority of funding for new and urgent priorities is provided through the reprioritisation and reallocation of existing baselines. Government will roll out a fee mass COVID-19 vaccination campaign for which R9 billion has been allocated in the medium term.

The 2021 National Budget documentation is available at: <http://www.treasury.gov.za/documents/National%20Budget/2021/>

3.2 2021 Western Cape Provincial Budget

The WCG tabled the Western Cape Recovery Plan in cabinet in March 2021. The Recovery Plan is based on the following four themes:

- **COVID-19 Recovery:** The pandemic is still with us; existing health measures must continue, and new ones put in place, and we must also deal with the secondary impacts of COVID-19 on the delivery of health services.
- **Jobs:** The economic impact of COVID-19 has been severe. We can only recover if our economy grows and our citizens generate income.
- **Safety:** This is the overarching theme for the Provincial Strategic Plan, and it is equally relevant going forward. It is inextricably linked with Well-being, as Safety cannot be achieved if basic human needs are not met.
- **Well-being:** Government must ensure that the basic human needs of our citizens are realised, as guaranteed in the Constitution.

The full Western Cape Recovery Plan can be found at this link:

https://www.westerncape.gov.za/sites/www.westerncape.gov.za/files/assets/departments/premier/western_cape_recovery_plan.pdf

In April 2020, the WCG adopted a three-phased approach to the budget process in order to ensure resources are reprioritised and deployed with the agility necessary to respond to the pandemic and its social and economic consequences. The Immediate Phase focused on the public health response through reprioritising resources and deploying available reserves. The Short-term Phase focused on policy-led repositioning towards the Western Cape Recovery Plan's priorities of Jobs, Safety and Well-being.

On Tuesday, 16 March 2021, the Western Cape Minister for Finance and Economic Opportunities, David Maynier, tabled the 2021 Western Cape Budget Address in the provincial legislature.

The 2021 MTEF, along with the 3rd 2020 adjusted budget, represent the final phase of this approach and sets the course for recovery and fiscal sustainability over the medium to long term. Given the complexities, uncertainties and moving variables related to the budget process and the fiscal outlook, the Medium-term Phase required difficult decisions in order to support economic and social recovery, re-introduce fiscal stability and maintain fiscal sustainability through rebuilding Provincial Reserves.

While responding to immediate pressures, the 2021 MTEF Budget also protects spending on the Western Cape's constitutionally and legally mandated functions. The 2021 MTEF Budget has four main objectives:

- **Protecting the health platform**, by allowing for an agile response to the risk of a COVID-19 resurgence and the need to have an effective vaccination programme. Dealing decisively with the COVID-19 pandemic will both allow the economy to open up and support a rebound in economic growth and dramatically reduce the health effects of the pandemic.
- **Enabling the Western Cape Recovery Plan (Recovery Plan)**, by protecting jobs and stimulating employment, accelerating implementation of the Provincial Safety Plan, enhancing well-being and providing targeted social relief.

- **Managing risks, particularly those arising from the COVID-19 pandemic**, ensuring resources are available to respond to ongoing vulnerabilities in communities, and ensuring that money is set aside for other disasters, particularly environmental ones. Transversal risks include a) severe COVID-19 pressures on the fiscal framework and the likely economic and social implications, b) Compensation of Employees pressures resulting in the inability to fill critical posts and having implications for staff well-being and burnout, c) Insufficient infrastructure investment including ICT infrastructure constraining service delivery and d) Deterioration of Local Government finances and the need to enhance the Joint District Metro Approach (JDMA).
- **Supporting the transition to long-term fiscal sustainability**. Measures are required to restructure the composition of Provincial Government expenditures and rebuild reserves in light of national spending reductions and the utilisation of reserves to fund the COVID-19 response. In particular, expenditure on the compensation of employees should not overwhelm spending on infrastructure or goods and services. This in turn requires the adoption of new technologies and ways of working to enhance the efficiency and effectiveness of service delivery.

These priority areas/objectives are as relevant to the local government space as it is to the Western Cape as a whole and has informed the formulation of the 2021 SIME theme i.e. Recovery, Responsiveness, Resilience. Municipalities are urged to familiarise themselves with the fiscal strategy underlining the 2021 WCG MTEF Budget and to take cognisance of the Provincial expenditure allocations (including infrastructure investments) within the respective municipal areas. The 2021 Main Budget documentation can be found here: <https://www.westerncape.gov.za/provincial-treasury/western-cape-budget-202122>

4. NATIONAL TREASURY AND PROVINCIAL TREASURY GUIDELINES

- Municipalities are advised to consult MFMA Circular No. 107 and MFMA Circular No. 108 as well as the Provincial Treasury Circular No. 20/2020 (December 2020) for guidance with respect to 2021/22 planning and budgeting. Key focus areas from MFMA Circular No. 108 are highlighted in section 4.1 below.
- Municipalities MUST include the National and Provincial Treasury Budget Circulars as part of the source documents consulted in the preparation of the 2021/22 MTREF Budget documents and table it as part of the budget documentation in the Municipal Council.

4.1 Key focus areas from MFMA Circular No. 108

Changes to local government allocations

Over the next three years, municipalities will have to adjust to significant changes in expenditure plans while improving accountability.

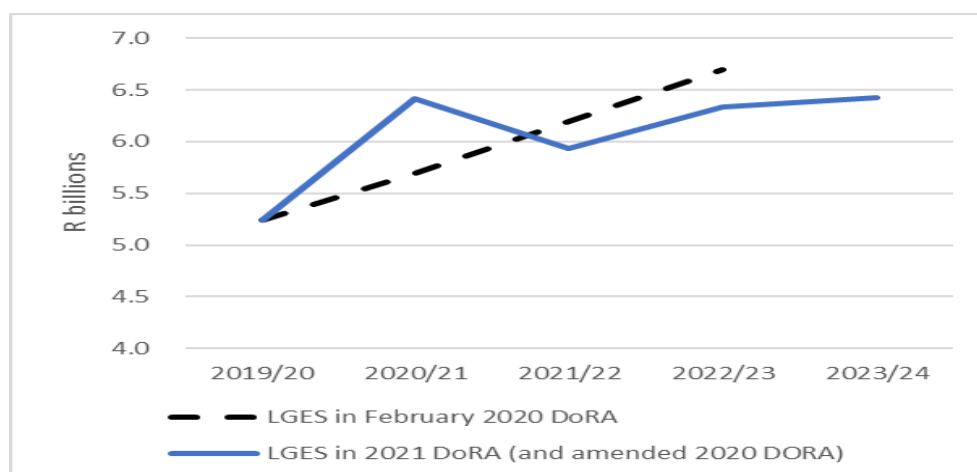
Local government transfers grow by an annual average of 5.2 per cent over the MTEF; the equitable share declines by 4.4 per cent and conditional grants grow by 7.3 per cent. As part of government's fiscal consolidation policies over the medium term, transfers to local government are reduced by R19.4 billion, including R14.7 billion from the local government equitable share, R2.7 billion from the general fuel levy and R2 billion in direct conditional grants.

Local government equitable share

Following the additional allocations made to municipalities through the local government equitable share for 2020/21 in the national Special Adjustment Budget in June last year, equitable share allocations to Western Cape municipalities decline by an average of 7.5 per cent from 2020/21 to 2022/23. Equitable share allocations then increase by an average of 6.9 per cent from 2021/22 to

2022/23. However, municipalities are cautioned to note that from 2022/23 to 2023/24 the average increase is only 1.4 per cent. This will be the first time that equitable share increases will be less than inflation. This increase will not compensate for population growth or the rising cost of services. Municipalities must therefore identify reprioritisations and savings that can be implemented in time to offset the impact of lower equitable share increases by the end of the 2021 MTREF period.

Figure 1: Comparison of total local government equitable share (LGES) allocations for Western Cape municipalities in the 2020 and 2021 Division of Revenue Acts



It should also be noted that some municipalities will face steeper changes than the average growth rates cited above. Some municipalities in the Western Cape face a decline in allocations from 2020/21 to 2021/22 of as much as 10.2 per cent and increases from 2021/22 to 2022/23 of as much as 9.6 per cent. In 2023/24 two municipalities in the Province are projected to see negative growth in their nominal equitable share allocations.

A national census is due to be conducted in 2021, and this data should be expected to be used to update the local government equitable share formula. Depending on the timelines for the release of the Census data, these updates could be phased into the equitable share formula from 2022/23 or 2023/24. National Treasury may also take this opportunity to implement other changes to the structure of the equitable share formula. Municipalities should therefore be aware of a higher degree of uncertainty on their equitable share allocations for the outer years of the MTREF.

Conditional grants

- Municipalities are reminded that all allocations included in their budgets must correspond to the allocations listed in the 2021 Division of Revenue Bill. All the budget documentation can be accessed from the National Treasury website at the following link:

<http://www.treasury.gov.za/documents/national%20budget/2021/>

2021 Local government elections and the budget process

- Municipalities are advised to refer to MFMA Circular No. 107 and MFMA Circular No. 108 and highlighted in Provincial Budget Circular 20/2020 for details on risks related to the Local Government elections, issues to be considered and transitional processes in development and adoption of the 2021/22 MTREF IDPs and budgets.

- As detailed in MFMA Circular No. 108, Municipal Managers, together with the Chief Financial Officers (CFOs) and Senior Managers are also encouraged to prepare a hand-over report that can be tabled at the first meeting of the newly elected council. This hand-over report aims to provide the new councils important orientation information regarding the Municipality, the state of its finances, service delivery and capital programme, as well as key issues that need to be addressed. A detailed list of what is proposed should be included is included in Circular No. 108. In addition to the hand-over report, each new councillor should be given the municipalities' revised IDP, the adopted 2021/22 MTREF budget, the mid-year budget and performance assessment report for 2020/21, the latest monthly financial statement, and the annual report for 2019/20.
- Municipal Managers should submit their municipality's hand-over report to the relevant provincial department responsible for local government, to the Department of Co-operative Governance (DCoG) and National and Provincial Treasuries.

Electricity supply and tariffs

- The National Energy Regulator of South Africa (NERSA) published their Municipal Tariff Guideline Increase Benchmarks for 2021/22 on Friday, 12th March 2021.
- In March 2019, NERSA approved a Multi-Year Price Determination that allowed for tariff increases for Eskom of 9.4 per cent in 2019/20, 8.1 per cent in 2020/21 and 5.2 per cent in 2021/22. However, for a variety of reasons, these are not the actual bulk tariff increases applied to municipalities in any of these years.
 - In 2019/20 the bulk tariff increase for municipalities was 15.63 per cent (and the NERSA guideline for the municipal retail tariff increase was 13.07 per cent).
 - In 2020/21 the bulk tariff increase for municipalities was 6.9 per cent (and the NERSA guideline for the municipal retail tariff increase was 6.22 per cent).
 - In 2021/22 the bulk tariff increase for municipalities was 17.8 per cent (and the NERSA guideline for the municipal retail tariff increase was 14.59 per cent).

Table 1: Electricity tariff increases, 2019/20 – 2021/22

| | MYPD tariff increase for Eskom customers (national financial year) | Revised bulk tariff (national financial year) | Bulk increase for municipalities (municipal financial year) | NERSA guideline tariff increase for municipal customers |
|---------|---|--|--|--|
| 2019/20 | 9.4% | - | 15.63% | 13.07% |
| 2020/21 | 8.4% | - | 6.9% | 6.22% |
| 2021/22 | 5.2% | 15.63% | 17.8% | 14.59% |

- On 17 February 2021, the North Gauteng High Court ruled in Eskom's favour, ordering NERSA to add R10 billion to Eskom's allowable revenue to be recovered from tariff customers in the 2021/22 financial year. NERSA calculates that this will result in a tariff increase of 15.63 per cent in the 2021/22 national financial year. However, given that the increase only comes into effect in July for municipalities, NERSA typically allows a higher percentage increase so that Eskom can recover the additional allowable revenue from municipalities over the 9 months before the national financial year ends.

- The higher bulk tariff for municipalities will extend past the end of the 2020/21 national financial year (which ends on 30 March 2021). As a result, there is likely to be an over-recovery of bulk costs from municipalities in the period from April to June 2021. Such an over-recovery is typically offset against the following year's bulk tariff increase. So, it is anticipated that the 2021/22 municipal tariff increases will be lower than those for Eskom customers. This pattern of over-recovery followed by an offset is the reason for the "see-saw" pattern in which tariff increases for Municipal customers are higher in one year (e.g. 2019/20) and then higher for Eskom customers in the next year (e.g. 2020/21).
- In 2021/22 the NERSA guideline issued on 12 March 2021 assumes that bulk costs make up 76 per cent of municipalities' retail electricity costs. As other costs (for salaries, repairs, capital and other costs) are all expected to be much closer to CPI, the guideline retail tariff will be somewhat lower than the bulk tariff for municipalities.
- NERSA's "Municipal Tariff Guidelines Increases, Benchmarks and Proposed Timelines for Municipal Tariff Approval Process for the 2021/22 financial year" publication should be consulted before the tabling of the budgets.
- Municipalities should note that the increase in the free basic services subsidy used in the local government equitable share formula used a bulk electricity increase of 9.9 per cent. As a result, the increase in the cost of free basic electricity may not be fully covered by the equitable share.

Cost of employment

- The Salary and Wage Collective Agreement for the period 01 July 2018 to 31 June 2020 has come to an end and a new agreement has not yet been negotiated.
- In the absence of any information from the South African Local Government Bargaining Council (SALGBC), National Treasury has advised municipalities to take into account their financial sustainability when considering salary increases.
- National Treasury acknowledges that several municipalities cannot afford any wage increase and suggests that they consider budgeting for a zero per cent increase. Several municipalities in the Western Cape applied for exemptions from implementing the 6.25 per cent increase in 2020/21 as they could not afford it. However, most of these applications were not successful in the SALGBC process. Although the option to apply for exemptions has been provided for in previous wage agreements and may be included again, it is difficult to budget on the basis of applying for an exemption.
- Provincial Treasury has observed that several municipalities in the Province appear to be responding to financial pressures and uncertainty in 2020/21 by delaying the filling of vacant posts. After the first six months of 2020/21 employee related spending by municipalities in the Province was R569.04 million lower than projected, largely as a result of unfilled posts. This offers one option for how municipalities can respond to the uncertainty of not having a wage agreement in place. If a municipality chooses to budget for a zero percent wage increase, they could nonetheless budget to fill all vacant posts. Then if the wage agreement includes an increase, the municipality can respond by no longer filling vacant posts in order to offset the cost of the increase. In this way, the same overall level of compensation spending can be achieved in two different ways: either with a smaller number of staff receiving wage increases, or a larger staff contingent, with static wages.
- Municipalities should note that national and provincial budgets have been prepared on the basis zero per cent cost of living increases for the 2020/21 to 2023/24 financial years. However,

even with these zero percent increases some other cost of employment related costs are still projected to increase, including medical and housing allowances and progression rates (which are equivalent to a 1.5 per cent increase). Technical details of the approach used for the other spheres can be seen at:

<http://www.treasury.gov.za/publications/guidelines/2021%20MTEF%20COE%20guidelines.pdf>

This may be useful both as a precedent for how zero per cent increases have been budgeted for in other spheres, and in identifying other compensation-related cost factors that will increase at different rates.

- It must be noted however that national and provincial government cannot set wages on behalf of municipalities and can only offer advice in the absence of a finalised wage agreement concluded through the SALGBC processes.

Mayor's discretionary funds and similar discretionary budget allocations

Discretionary funds and similar discretionary budget allocations are regarded as bad practice because:

- It is not clear how they are aligned to the constitutional requirement that municipalities structure their budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community (see Section 153(a) of the Constitution);
- They do not provide for the appropriation of funds for the purposes of a department or functional area of the Municipality (see the definition of 'vote' in section 1 of the MFMA);
- They undermine the budget consultation processes since the intended use of the funds is not transparently reflected in the tabled budget; and
- There is a risk that they may be abused for personal gain or to improperly benefit another person or organisation.

National and Provincial Treasury will exercise close oversight of all discretionary type allocations in municipal budgets. If there are any concerns about the use of these funds, section 74 of the MFMA will be used to request information in this regard and analyse it for consistency with the MFMA legal framework.

5. 2021/22 STRATEGIC INTEGRATED MUNICIPAL ENGAGEMENTS (SIME) PROCESS

5.1 Municipal Budget Day

According to sections 16(2) and 17(3)(d) of the MFMA, the Mayor of a municipality must table the annual budget at a council meeting at least 90 days (i.e. by 31 March 2021) before the start of the budget year.

It is important to note that there is no explicit requirement for council to endorse or approve the tabled budget or reviewed/amended IDP tabled by the mayor for public participation. The municipal council only has the legal authority to consider a tabled budget and reviewed/amended IDP after the completion of one or more public participation processes undertaken pursuant to Section 22, read with section 23 of the MFMA. Council will only consider for approval "*the product of an inclusive budget preparation and consultative process*" when the proposed annual budget (as amended, if applicable) is placed before council in terms of section 24(1) of the MFMA.

Given that the preparation, consultation, adoption and implementation of a municipality's annual budget is inextricably linked to, and must be substantially aligned to and informed by the contents of that municipality's IDP, it would be procedurally flawed for the mayor to proceed with the tabling of the proposed annual budget (and commence with public participation process required in terms of section 22 of the MFMA) at a time when the annual review and/or revision of the Municipality's IDP has not been completed.

If a municipality has failed to complete the relevant processes applicable for the review and revision of the annual budget and IDP in time for the deadline applicable to the tabling of the proposed annual budget (i.e. 31 March), the mayor must submit an application for an extension of the said deadline. As per section 27 of the MFMA, the mayor of a municipality must, upon becoming aware of any impending non-compliance by the municipality of any provisions of the Act or any other legislation pertaining to the tabling or approval of the annual budget or compulsory consultation processes, inform the MEC for Finance in the province in writing of any impending non-compliance.

If the impending non-compliance pertains to a time provision, except section 16(1) of the MFMA, the mayor may apply to the MEC for Finance for an extension, which must be in accordance with Schedule G of the Municipal Budget and Reporting Regulations.

Municipalities are kindly requested to indicate any changes to the confirmed tabling dates as per **Appendix A** with the Provincial Treasury to Tania.Bosser@westerncape.gov.za by **23 March 2021**.

5.2 Submitting budget documentation and schedules for 2021/22 MTREF

- Section 22 (b)(i) of the MFMA requires that, immediately after an annual budget is tabled in municipal council, it must be submitted to the National Treasury and the relevant provincial treasury.
- If the annual budget is tabled in council on 31 March 2021, the final date of submission of the electronic budget documents and corresponding **mSCOA data strings** is Thursday, 01 April 2021.
- Section 24(3) of the MFMA, read together with Regulation 20(1) of the Municipal Budget and Reporting Regulations (MBRR), requires that municipalities must submit the approved annual budget to both National Treasury and the relevant provincial treasury within ten (10) working days after the council has approved the annual budget. E.g. if the council approves the annual budget on 31 May 2021, given the new timeframe for the evaluation of the municipal budgets, the adopted budget data strings and documentation must be submitted by the latest Monday, 14 June 2021.
- The accompanying document submission checklist (**see Appendix B**) provides a list of the documentation required from Provincial Government. Electronic budget related documents must be provided in PDF format. The designated municipal official needs to complete and sign the accompanying checklist (**Appendix B**) as confirmation that the set of budget, IDP and related documents have been submitted.

- Municipalities are **no longer** expected to submit hard copies of all required documents including budget-related, Integrated Development Plan, Service Delivery Budget and Implementation Plan (SDBIP), Annual Financial Statements and Annual Reports to National Treasury via post or courier services. Electronic copies must be uploaded by approved registered users in PDF format to the **LG Upload portal at <https://lguploadportal.treasury.gov.za/>**. Also note that the LG Upload Portal requires all documents: 1. To be in PDF format only; and that 2. Each PDF file must NOT contain multiple document e.g. council resolution and quality certificate within the budget document. Each document type must be identified clearly and uploaded separately.
- Municipalities should submit electronic documents to **Provincial Treasury** to: MFMA.MFMA@westerncape.gov.za or if too large (exceeds 3 MB), must be submitted via One Drive. Instructions for uploading the budget and related documents via **One Drive** are provided in **Appendix C**.
- If municipalities require advice with the compilation of their respective budgets, they should direct their enquiries to the following WC Provincial Treasury officials:

| Directorate | Official | Tel. No. | Email |
|-----------------------|-----------------------|--------------|--|
| Public Finance | Chris Mapeyi | 021 483 6100 | Christopher.Mapeyi@westerncape.gov.za |
| | Elizabeth de Lange | 021 483 4540 | Elizabeth.deLange@westerncape.gov.za |
| | Elton Johannes – CoCT | 021 483 4229 | Elton.Johannes@westerncape.gov.za |
| Budget Office | Dian Cronje | 021 483 0390 | Dian.Cronje@westerncape.gov.za |
| | Nadia Rinquet | 021 483 8692 | Nadia.Rinquet@westerncape.gov.za |
| | Kim Engel | 021 483 8459 | Kim.Engel@westerncape.gov.za |
| Fiscal Policy | Dr Ndodana Nleya | 021 483 6707 | Ndodana.Nleya@westerncape.gov.za |

Municipalities may also contact the following officials at National Treasury for assistance.

| Responsible Area | Official | Tel. No. | Email |
|--|-----------------|--------------|--|
| Western Cape Cape Town George | Kgomotso Baloyi | 012 315 5866 | Kgomotso.Baloyi@treasury.gov.za |
| | Willem Voigt | 012 315 5830 | WillemCordes.Voigt@treasury.gov.za |
| | Mandla Gilimani | 012 315 5807 | Mandla.Gilimani@treasury.gov.za |
| Technical issues with Excel formats | Elsabe Rossouw | 012 315 5534 | lgdataqueries@treasury.gov.za |

5.3 Publication of budgets on municipal website

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.

5.4 Strategic Integrated Municipal Engagement Process

Integrated planning and budgeting focusses on strengthening the alignment of planning and budgeting in the Province, and places particular emphasis on enhancing the provincial and local government interface. The Strategic Integrated Municipal Engagements which takes place in April and May precedes the approval and implementation of municipal budgets. The engagements afford Provincial Government the opportunity to provide feedback on its assessment of the of Municipal planning and budgeting efforts for the upcoming financial year and for the 2021/22 MTREF.

The assessments are based on compliance and performance information obtained from the Western Cape Monitoring and Evaluation System (WCMES) as well as an assessment on conformance, responsiveness, credibility and sustainability of the municipality's draft budget, IDP, SDF and supporting plans. It is therefore important that all Municipalities timeously submit all the required information as per the WCMEC. The assessment of the tabled IDPs will be undertaken by the Department of Local Government working with all relevant sector departments in the Province impacting on municipalities, to ensure alignment between the IDPs and all the Provincial strategic priorities and plans.

The Strategic Integrated Municipal Engagements will primarily focus on strategic issues emanating from the municipalities IDPs, SDFs and tabled annual budgets in order to gear municipalities for sustainable growth and development.

A key focus of the 2021/22 SIME process will be on local governments responsiveness, resilience and recovery plans in dealing with its socio-economic environment, and in particular, in relation to the effects of the COVID-19 pandemic that has had far reaching economic and social impacts. Although the future path of the pandemic is still uncertain, municipalities must chart a way through the difficult environment to ensure that it continues to deliver on its mandate.

The overall objectives of the 2021/22 SIME process and the key messages therefore emphasises:

- Aligning strategic intent as encapsulated within the Integrated Development Plans (IDP) and municipal budgets to create public value based on the community needs/priorities identified through the public participation processes;
- Safeguarding of municipal sustainability by ensuring that municipalities table funded budgets and the strengthening of municipal financial management;
- Ensure optimal and targeted service delivery through strategic spatial planning and alignment;
- Deepening of an integrated approach to service delivery with the intention of creating synergies through the consolidation/concentration of resources, also across different spheres of government;
- Identification of areas that require support as well as opportunities for collaboration and partnerships.

The discussions at the engagements are strategic in nature. The representation at the SIME engagements between the Province and municipalities will be as follows:

- The Provincial Government - senior officials from the Provincial Treasury, Department of Local Government, Department of Environmental Affairs and Development Planning and relevant provincial departments.
- Municipalities - Municipal Manager, section 56 Managers, Budget and Treasury officials, IDP Manager/officials and Planning officials.

Due to the COVID-19 pandemic and measures taken to minimize the risk of the spread of the disease, the Strategic Integrated Municipal Engagements will take place via videoconferencing, on Microsoft Teams.

- The SIME engagements are provisionally scheduled to take place from 29 April 2021 to 10 May 2021 and is subject to confirmation from the municipalities. PT will communicate with each Municipality on an individual basis to confirm the date and time of the engagement.

6. OTHER MATTERS

6.1 Annual Report submission

Municipalities are reminded to ensure that Annual Reports are tabled within the legislated timeframes, which read together with Exemption Notice 43582, stipulates that Municipalities and municipal entities must comply within two months after the deadline, that is, by end March 2021.

If the mayor is unable to table the Annual Report within the legislated timeframe, as per section 127(3)(a) of MFMA, the mayor must promptly submit to the council a written explanation referred to in section 133(1)(a) setting out the reasons for the delay, together with any components of the annual report listed in section 121(3) or (4) that are ready. If the Audit Report is not yet available at this time, all other components of the Annual Report must be tabled by this date. As per section 127(3)(b) of the MFMA, the mayor must submit to the council the outstanding annual report or the outstanding components of the annual report as soon as may be possible.

6.2 Performance Reporting Obligations: Implementation of MFMA Circular 88 (2017) for the 2021/22 municipal financial year

Municipalities are reminded to familiarise themselves with MFMA Circular No. 88 of 2017, its accompanying annexures and subsequent addendums which provide guidance to municipalities on the adoption and internalisation of a common set of performance indicators. Experience since the 2018/19 implementation of the original circular has shown that the on-going planning, budgeting and reporting reforms process is complex and requires sufficient time and change management for incremental roll-out, growth and institutionalisation. Addendum 2 (released in December 2020) introduced a significant shift in the reforms in four respects: 1) it more closely integrates and guides planning, budgeting and reporting reforms; 2) it significantly expands and revises the set of MFMA Circular No. 88 indicators applicable to metropolitan municipalities; 3) it expands the application of the reforms and the indicators to differential categories of municipalities and levels of readiness, for application in 2021/22 MTREF cycle going forward; and 4) it introduces evaluations in the context of these reforms.

For immediate implementation purposes, municipalities should be able to identify the indicators in Appendix A to Addendum 2 that are listed as Tier 1 or Tier 2 for their category of municipality and start establishing baselines for those measurements (if they are not already being tracked). Understanding the standard definitions will require engaging with the technical indicator descriptions (TID) in Appendix B to Addendum 2. Municipalities should be able to navigate Appendix A without any further guidance to understand what is going to apply to them for the 2021/22 financial year and be able to refer to Appendix B to get the detail on the standard formulation of each indicator.

Importantly, please note that intermediate cities, districts and local municipalities will not yet for 2021/22 be required to incorporate these indicators in their IDPs and SDBIPs. Instead, the relevant indicators should be included as an annexure to the IDP and SDBIP. Although the indicators do not formally have to be included in the IDP/SDBIP, municipalities will be required to report on performance against said indicators on a quarterly and annual basis. Municipalities are therefore

advised to put in place the necessary standard operating procedures and portfolios of evidence to ensure timeous reporting throughout 2021/22 to ultimately strengthen the link between planning, budgeting and reporting. Please do note that the roll-out process will for 2021/22 remain a pilot project. Reporting against these indicators will as such not be audited for 2021/22.

7. CONCLUSION

Municipalities should take into account and apply the contents of this budget circular in the 2021/22 planning and budgeting process.

Please direct any queries regarding this circular to Dian Cronje at:

Dian.Cronje@westerncape.gov.za.

A handwritten signature in black ink, appearing to read 'R Havemann', with a long horizontal stroke extending to the right and a shorter one below it.

DR R HAVEMANN
DEPUTY DIRECTOR-GENERAL: FISCAL AND ECONOMIC SERVICES
DATE: 17 March 2021

CONFIRMED 2021 BUDGET TABLING DATES

| Municipality | Confirmed date |
|--------------------------------------|--------------------------|
| City of Cape Town | Wednesday, 31 March 2021 |
| Matzikama | Tuesday, 30 March 2021 |
| Cederberg | Wednesday, 31 March 2021 |
| Bergrivier | Tuesday, 30 March 2021 |
| Saldanha Bay | Tuesday, 30 March 2021 |
| Swartland | Tuesday, 30 March 2021 |
| West Coast District Municipality | Monday, 29 March 2021 |
| Witzenberg | Wednesday, 31 March 2021 |
| Drakenstein | Wednesday, 31 March 2021 |
| Stellenbosch | Wednesday, 31 March 2021 |
| Breede Valley | Tuesday, 30 March 2021 |
| Langeberg | Tuesday, 30 March 2021 |
| Cape Winelands District Municipality | Thursday, 25 March 2021 |
| Theewaterskloof | Tuesday, 30 March 2021 |
| Overstrand | Wednesday, 31 March 2021 |
| Cape Agulhas | Tuesday, 30 March 2021 |
| Swellendam | Wednesday, 31 March 2021 |
| Overberg District Municipality | Monday, 29 March 2021 |
| Kannaland | Wednesday, 31 March 2021 |
| Hessequa | Wednesday, 31 March 2021 |
| Mossel Bay | Wednesday, 31 March 2021 |
| George | Wednesday, 31 March 2021 |
| Oudtshoorn | Wednesday, 31 March 2021 |
| Bitou | Wednesday, 31 March 2021 |
| Knysna | Wednesday, 31 March 2021 |
| Garden Route District Municipality | Wednesday, 31 March 2021 |
| Laingsburg | Wednesday, 31 March 2021 |
| Prince Albert | Wednesday, 31 March 2021 |
| Beaufort West | Wednesday, 31 March 2021 |
| Central Karoo District Municipality | Thursday, 25 March 2021 |

DOCUMENT SUBMISSION CHECKLIST FOR THE 2021/22 TABLED INTEGRATED DEVELOPMENT PLAN, BUDGET AND RELATED DOCUMENTATION

MUNICIPALITY: _____

In completing and signing the Budget and IDP documentation checklist below, the municipality confirms that Schedule A1 **complies with the Municipal Budget and Reporting Regulations (MBRR)** and that the main tables and the relevant supporting tables (as listed below) are in **version 6.5** of Schedule A1 and **drawn directly from the municipal financial system**.

The Integrated Development Plan as set out in Section 26, 32 and 34 of the Local Government: Municipal Systems Act, No 32 of 2000 and Regulations (MSA) and Section 21 of the Local Government Municipal Finance Management Act 56 of 2003 (MFMA).

The Spatial Development Framework, Disaster Management Framework and additional documents must be submitted as required in terms of budget circulars.

| Budget Documentation | Yes | No | N/A |
|---|------------|-----------|------------|
| Council Resolution in terms of the Tabled Budget | | | |
| The Budget Documentation as set out in the MBRR. The Budget Document must include the main A1 Schedule Tables (A1-A10) | | | |
| The non-financial supporting tables A10, SA9, SA11, SA12, SA13, SA24 and any information not contained in the financial data string in <u>the A1 in the prescribed mSCOA data string in the format published with Version 6.5 of the A1 schedule</u> | | | |
| Council Resolution in terms of the Tabled Budget | | | |
| Draft Service Delivery and Budget Implementation Plan | | | |
| Procurement Plan | | | |
| Draft Service Level Standards | | | |
| Signed Quality Certificate as prescribed in the MBRR | | | |
| Budget Related Policies | | | |
| Information on any amendments to budget related policies | | | |
| Suite of budget related policies | | | |
| IDP and Related Documentation | | | |
| Council Resolution in terms of the IDP | | | |
| Proposed amendments to the IDP | | | |
| The draft memorandum referred to in Regulation 3(2) of the Local Government: Municipal Planning and Performance Management Regulations of 2001 | | | |
| Process Plan/Time schedule according to Section 29) of the MSA read in conjunction with section 21(b) of the MFMA | | | |
| Spatial Development Framework | | | |
| Council Resolution in terms of the adoption of the <i>Spatial Development Framework</i> | | | |
| Applicable Disaster Management Plan | | | |
| Council Resolution in terms of the adoption of the <i>Disaster Management Framework</i> | | | |

| Budget Documentation | Yes | No | N/A |
|--|------------|-----------|------------|
| Integrated Waste Management Plan | | | |
| Air Quality Management Plan | | | |
| Coastal Management Plan (<i>Coastal Municipalities only</i>) | | | |
| Human Settlement Plan | | | |
| Local Economic Development Strategy | | | |
| Water Services Development Plan | | | |
| Storm Water Master Plan | | | |
| Integrated Transport Plan | | | |
| Electricity Master Plan | | | |
| Infrastructure Growth Plan | | | |
| Workplace Skills Plan | | | |

MUNICIPAL REPRESENTATIVE:

Designation: _____

Name: _____

Signature: _____

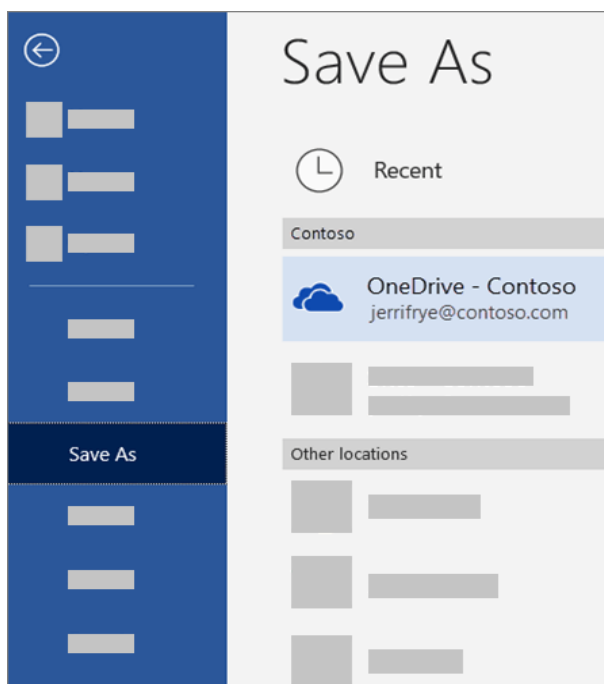
Date: _____

The following instructions provide a guide for the upload of budget documentation onto OneDrive.

● **How to upload documents to One drive:**

You can use this option if you have OneDrive linked to your Microsoft Office or Office 365

1. In any Office document, select File > Save As, choose your OneDrive, and then pick the folder where you want to save the file. Create a new folder (e.g. DC1 2020 Budget Documents) and place all the budget related documents within it.



2. In order to share the link to that folder Go into OneDrive
3. Select the file that you want to share and right click on it
4. Choose "share"
5. Ensure that sharing is defaulted to "Anyone with the link can edit"
6. Enter the MFMA email address: MFMA.MFMA@westerncape.gov.za and email addresses of anyone else that you want to share the link with.
7. Click the Share Button

File names in following sequence for budget related documents to be submitted to MFMA:

- Demarcation code
- "ccyy" century and year (eg.2021)
- Name of document submitted (e.g. Draft Budget, Draft IDP, Draft SDBIP etc.)

E.g.: DC1 2021 Draft IDP

E.g.: DC1 2021 MTREF Main Budget

E.g.: DC1 2021 Draft SDBIP