NATIONAL TREASURY

MFMA Circular No. 58

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 and 55.

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1 Key focus areas for the 2012/13 budget process

The *Medium Term Budget Policy Statement 2011* notes that in recent months the domestic economy has lost momentum as a result of the disruption to world economic activity following the Japanese tsunami, domestic strike activity and moderating household consumption. In the first quarter of 2011, the economy grew at 4.5 per cent on an annual basis. In the second quarter, growth slowed to 1.3 per cent. Real GDP is now expected to grow by 3.1 per cent in 2011 – a downward revision from the 3.4 per cent forecast in the 2011 Budget.

The labour market remains sluggish. Formal sector non-agricultural employment is just 2.6 per cent higher than its low in March 2010. Unemployment increased from 21.8 per cent in the fourth quarter of 2008 to 25.7 per cent in the second quarter of 2011. This figure does not capture the estimated 2.2 million workers who have stopped looking for work.

Consequently, municipal revenues and cash flows are expected to remain under pressure in 2012/13 and ***so municipalities must 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 Taking the 2011 Local Government and Expenditure Review forward

In September 2011, National Treasury published the *Local Government Budgets and Expenditure Review*. Municipalities are urged to work through the document as part of their preparations for drafting their 2012/13 budgets and MTREF.

The *Review* highlights the following areas as requiring particular attention:

i. ***Revenue management*** – To ensure the collection of revenues, municipalities need to ensure that billing systems are accurate, send out accounts to residents and follow up to collect revenues owed.

ii. ***Collecting outstanding debts*** – This requires political commitment, sufficient administrative capacity, and pricing policies that ensure that bills are accurate and affordable, especially for poor households.

iii. ***Pricing services correctly*** – The full cost of services should be reflected in the price charged to residents who can afford to pay. Many municipalities offer overly generous subsidies and rebates that result in services being run at a loss, resulting in funds being diverted away from other priorities.

iv. ***Underspending on repairs and maintenance*** – Often seen as a way to reduce spending in the short term, underspending on maintenance can shorten the life of assets, increase long-term maintenance and refurbishment costs, and cause a deterioration in the reliability of services.

v. ***Spending on non-priorities*** – Many municipalities spend significant amounts on non-priority items including unnecessary travel, luxury furnishings, excessive catering and unwarranted public relations projects. Consultants are often used to perform routine tasks.

The *2011 Local Government Budgets and Expenditure Review* can be accessed at:
http://www.treasury.gov.za/publications/igfr/2011/lg/default.aspx

1.2 National priority – creating decent employment opportunities

Creating decent employment opportunities remains a national priority. In drafting their 2012/13 budgets and MTREFs all municipalities are urged to continue to explore opportunities to mainstream labour intensive approaches to delivering services, and more particularly to participate fully in the Extended Public Works Programme.

Municipalities should not just employ more people without any reference to the level of staffing required to deliver effective services, and what is financially sustainable over the medium term. The municipality ought to focus on maximizing its contribution to job creation by:

- Ensuring that service delivery and capital projects use labour intensive methods wherever appropriate;
- Ensuring that service providers use labour intensive approaches;
- Supporting labour intensive LED projects;
- Participating fully in the Extended Public Works Programme; and
- Implementing interns programmes to provide young people with on-the-job training.

Municipalities also play a critical role in creating an enabling environment for investments and other activities that lead to job creation. In this regard, it is important for municipalities to pay particular attention to ensuring the timely delivery of their capital programmes (eliminate under-spending of capital budgets) and to review all by-laws and development approval processes with a view to removing any regulatory bottlenecks to investment and job creation.

1.3 Additional allocations to local government

The *Medium Term Budget Policy Statement 2011* indicates that over the 2012 MTEF, transfers to local government grow by R5 billion, of which R2.2 billion is added to the local government equitable share and R2.8 billion to local government conditional grants. However, most of these funds are only going to be made available in 2013/14 and 2014/15.

This means the baseline allocations to local government for 2012/13 are set to remain largely unchanged from the amounts published in the 2011 Division of Revenue Act, namely R37.5 billion to the local government equitable share, and R30.4 billion for conditional grants. The final allocations to municipalities will be announced in the 2012 Division of Revenue Bill, which will be tabled by the Minister of Finance on 22 February 2012. This information will be communicated to municipalities in a further Budget Circular for the 2012/13 financial year to be issued shortly after the tabling of the National Budget.

Municipalities MUST ensure that their tabled budgets reflect the equitable share and conditional grant allocations set out in the 2012 Division of Revenue Bill.

At this stage, municipalities are advised to use the indicative numbers for 2012/13 in the 2011 Division of Revenue Act to compile their budgets. This document is available on National Treasury's website at:

http://www.treasury.gov.za/legislation/acts/2011/Default.aspx

1.4 Procurement reforms and fighting corruption

Municipalities are again advised that the supply chain compliance unit will also be focusing on municipal procurement processes. Consequently, municipalities can expect requests for information relating to their tender committees and processes, as well as specific tenders and contracts.

Municipalities are also encouraged to introduce greater transparency to municipal supply chain processes by publishing SCM process outcomes on their websites.

2 Headline inflation forecasts

Municipalities must take the following inflation forecasts into consideration when preparing their 2012/13 budgets and MTREF. Again this information will be updated in a further Budget Circular to be issued after the tabling of the National Budget on 22 February 2012.

Fiscal year	2010	2011	2012	2013	2014
	Actual	Estimate		Forecast	
Headline CPI Inflation	3.3%	5.0%	5.4%	5.6%	5.4%

Source: Medium Term Budget Policy Statement 2011

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 2011 MTBPS).

3 Revising rates, tariffs and other charges

When municipalities and municipal entities revise their rates, tariffs and other charges for their 2012/13 budgets and MTREF, they need to take into account the labour (i.e. the wage agreements with unions) and other input costs of services provided by the municipality or entity, the need to ensure financial sustainability, local economic conditions and the affordability of services, taking into consideration the municipality's indigent policy. Municipalities should also take into account relevant policy developments in the different sectors (such as the *inclining block tariff* (IBT) proposals from the National Energy Regulator of South Africa (NERSA)).

Municipalities should continue to explore appropriate ways of structuring the tariffs for utility services to encourage more efficient use of these services and to generate the resources required to fund the maintenance, renewal and expansion of the infrastructure required to provide the services.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges at levels that reflect an appropriate balance between the interests of poor households, other customers and ensuring the financial sustainability of the municipality. For this reason municipalities must justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank's inflation target.

3.1 NERSA's process to approve electricity tariffs

It is very important that municipalities and NERSA work together to ensure that the process of approving electricity tariffs does not disrupt the process of compiling municipal budgets or compromise community consultations on the budget. It is for this reason that section 43 of the MFMA reads:

> 43 (1) If a national or provincial organ of state in terms of a power contained in any national or provincial legislations determines the upper limits of a municipal tax or tariff, such determination takes effect for municipalities on a date specified in the determination.
>
> (2) Unless the Minister on good grounds approves otherwise, the date specified in a determination referred to in subsection (1) may-
> (a) if the determination was promulgated on or before 15 March in a year, not be a date before 1 July in that year; or
> (b) if the determination was promulgated after 15 March in a year, not be a date before 1 July in the next year.

So if NERSA only concludes its final determination for a municipality after 15 March, the municipality is not obliged to implement NERSA's final determination with effect from 1 July of the current year, unless the Minister on good grounds approves otherwise.

It is proposed that the only 'good grounds' that the Minister of Finance will consider for requiring compliance with a final determination issued by NERSA after 15 March, is where NERSA can show that a municipality has failed to:

i. submit its D-form either before 30 October 2011 or the extended deadline of 30 January 2012; or

ii. submit a tariff application to NERSA containing all the required information by 30 January 2012; or

iii. fails to participate in public hearings called and held by NERSA a reasonable period before 15 March 2012.

Where a municipality can demonstrate that it has complied with (i), (ii) and (iii) above, and that NERSA did not issue a final determination before 15 March 2012, the municipality will be entitled to use the tariffs for 2012/13 set out in its original application to NERSA that must have been submitted by 30 January 2012.

3.2 Eskom bulk tariff increases

The Eskom price of bulk electricity supplied to municipalities will increase by 27.06 per cent on 1 July 2012. Municipalities are urged to examine the cost structure of their electricity undertakings and apply to NERSA for electricity tariff increases that are cost reflective and ensure continued financial sustainability.

National Treasury supports the use of the following formula, proposed by NERSA, for calculating municipal electricity tariff increases:

$$MTI = (B \times BPI) + (S \times SI) + (R \times RI) + (C \times CCI) + (OC \times OCI)$$

Where:

MTI = % Municipal Tariff Increase
B = % Bulk purchases
BPI = % Bulk purchase increase
S = % Salaries
SI = % Salaries increase
R = % Repairs
RI = % Repairs increase
C = % Capital charges
CCI = % Capital charges increase
OC = % Other costs
OCI = % Other costs increase

All cost shares and increases must relate to the electricity function of the municipality

NERSA will be issuing its guideline tariff increase for municipalities in due course. The relevant guideline, as well as NERSA's Reasons for Decision document will be available at: www.nersa.org.za.

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.

3.3 Introduction of inclining block tariffs (IBT) for electricity

National Treasury supports the introduction of IBTs for electricity by municipalities. However, it is important that each municipality designs an IBT structure that is appropriate to its specific circumstances, and ensures an appropriate balance between 'low income customers' and other domestic, commercial and business customers, and the financial interests of the municipality.

It is also important that any proposed IBT is fully aligned to the principles set out in the *South African Electricity Supply Industry: Electricity Pricing Policy* (EPP) issued on 19 December 2008, including the principle that electricity tariffs must be cost reflective and that any cross-subsidies should be explicit.

A 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 the price elasticity of the demand for electricity.

3.4 Water and sanitation tariffs must be cost-reflective

Municipalities are reminded to review the level and structure of their water and sanitation tariffs carefully with a view to ensuring:

- Water and sanitation tariffs are on aggregate fully cost-reflective – including the bulk cost of water, the cost of maintenance and renewal of purification/treatment plants and network infrastructure, and the cost of new infrastructure;
- Water and sanitation tariffs are structured to protect basic levels of service; and

- Water and sanitation tariffs are designed to encourage efficient and sustainable consumption (e.g. through inclining block tariffs).

If a municipality's water and sanitation tariffs are not fully cost reflective, the municipality should develop a pricing strategy to phase-in the necessary tariff increases in a manner that spreads the impact on consumers over a period of time. However, all municipalities should aim to have appropriately structured, cost-reflective water and sanitation tariffs in place by 2014.

To mitigate the need for water tariff increases, municipalities must put in place an appropriate strategy to limit water losses to acceptable levels. In this regard municipalities must ensure that water used by its own operations is charged to the relevant service, and not simply attributed to water 'losses'.

Municipalities not already calculating and reporting non-revenue water in accordance with the International Water Association (IWA) standards as required by the Department of Water Affairs (DWA) should contact DWA for assistance in this regard. National Treasury is working with DWA to publish this information in the near future.

3.5 Solid waste tariffs

Many municipalities' solid waste tariffs do not cover the cost of providing the different components of the service. Where this is the case, municipalities should aim to have appropriately structured, cost-reflective solid waste tariffs in place by 2015.

The tariffs for solid waste management must take into account that it is good practice to maintain a cash-backed reserve to cover the future costs of rehabilitating landfill sites.

Municipalities are encouraged to explore alternative methodologies to manage solid waste, including recycling and incineration in plants that use the heat energy to generate electricity.

4 Funding choices and management issues

Given on-going economic pressures referred to in section 1 above, the revenue side of municipal budgets will continue to be constrained, so municipalities will again need to make some very tough decisions on the expenditure side this year. Priority ought to be given to:

- Ensuring that drinking water and waste water management meets the required quality standards at all times;
- Protecting the poor;
- Supporting meaningful local economic development (LED) initiatives that foster micro and small business opportunities and job creation;
- Securing the health of their asset base (especially the municipality's revenue generating assets) by increasing spending on repairs and maintenance; and
- Expediting spending on capital projects that are funded by conditional grants.

Municipalities must also ensure that their capital budgets reflect consistent efforts to address the backlogs in basic services and the renewal of the infrastructure of existing network services.

4.1 Eliminating non-priority spending

Municipalities must pay special attention to controlling unnecessary spending on nice-to-have items and non-essential activities. The following examples of non-priority expenditure have been observed, and need to be eliminated:

i. excessive sponsorship of music festivals, beauty pageants and sporting events, including the purchase of tickets to events for councillors and/or officials;
ii. public relations projects and activities that are not centred on actual service delivery or are not a municipal function (e.g. celebrations; gala dinners; commemorations, advertising and voter education);
iii. LED projects that serve the narrow interests of only a small number of beneficiaries or fall within the mandates of other government departments such as the Department of Agriculture;
iv. excessive catering for meetings and other events, including the use of public funds to buy alcoholic beverages;
v. arranging workshops and events at expensive private venues, especially ones outside the municipality (as opposed to using the municipality's own venues);
vi. excessive printing costs (instead of maximising the use of the municipality's website, including providing facilities for the public to access the website);
vii. excessive luxurious office accommodation and office furnishings;
viii. foreign travel by mayors, councillors and officials, particularly 'study tours';
ix. excessive councilor and staff perks such as luxurious mayoral cars and houses, notebooks, IPADS and cell-phone allowances; travel and subsistence allowances (certain of these may be irregular spending – see paragraph 4.8 below);
x. excessive staff in the office of the mayor – particularly the appointment of political 'advisors' and 'spokespersons';
xi. all donations to individuals that are not made in terms of the municipality's indigent policy or a bursary scheme; for instance donations to cover funeral costs (other than pauper burials which is a district municipality function);
xii. costs associated with long-standing staff suspensions and the legal costs associated with not following due process when suspending or dismissing staff, as well as payment of severance packages or 'golden handshakes'; and
xiii. the use of consultants to perform routine management tasks, and the payment of excessive fees to consultants.

4.2 Three-year and one-year capital appropriations

To facilitate the delivery of large capital projects, section 16(3) of the MFMA allows a municipality to appropriate capital budgets for three financial years, i.e. the budget year and the following two years of the MTREF. The aim of such multi-year capital appropriations is to:

- lock the council into funding the full cost of large capital projects so as to ensure their successful completion;
- facilitate the forward planning of capital projects and programmes;
- enable the municipality to initiate procurement processes for capital projects in the two outer years of the MTREF (given the funds are appropriated) and so ensure improved levels of capital spending; and
- enable funding for such capital projects to be brought forward in terms of section 31 of the MFMA to facilitate more rapid project implementation (although National Treasury would prefer municipalities to the use of the mid-year adjustments budget for this purpose).

Municipalities are encouraged to use these provisions of the MFMA appropriately, and ensure they divide their capital budgets correctly between the 'multi-year expenditure' and the 'single-year expenditure' sections on Tables A5A and A5.

To facilitate the tracking of past multi-year appropriations in the preparation of the new budget the 'multi-year expenditure' section of Table A5A has been changed to look as follows:

Vote Description	2012/13 Medium Term Revenue & Expenditure Framework			Multi-year appropriation for 2012/13 in the 2011/12 Annual Budget				New multi-year appropriations (funds for new and existing projects)		
R thousand	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15	Appropriation for 2012/13	Adjustments in 2011/12	Downward adjustements for 2012/13	Appropriation carried forwar	udget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Capital expenditure - Municipal Vote										
Multi-year expenditure appropriation										
Vote 1 - [NAME OF VOTE 1]	110	160	140	100	(10)	(20)		40	40	
1.1 - [Name of sub-vote]	110	160	140	100	(10)	(20)	70	40	40	140
	6			1	2	3	4	5		7

Where:

1 – the original 2012/13 appropriation in the 2011/12 Annual Budget
2 – any upward or downward adjustments made to the original 2012/13 appropriation during the 2011/12 financial year (for instance in an adjustments budget)
3 – any downward adjustments to the original 2012/13 appropriation to be effected in the 2012/13 Annual Budget
4 – the balance of the original 2012/13 appropriation to be carried forward into the 2012/13 Annual Budget
5 – any new funds to be allocated to the original 2012/13 appropriation in the 2012/13 Annual Budget
6 – the new amount to be appropriated for 2012/13 (consists of 4+5)
7 – the new multi-year budget for the outer year of the MTREF

(not shown above is the reconciliation of the original 2013/14 multi-year appropriation in the 2011/12 Annual Budget, which follows exactly the same methodology shown above).

Any downward adjustments under '3' must be fully explained in the municipality's budget document, as such a change suggests the municipality may have decided to discontinue the implementation of a large capital project or programme before completion. This is would need to be properly justified to the community.

4.3 Revaluations in terms of GRAP 17 and the treatment of depreciation in the budget

In the process of implementing GRAP 17, many municipalities have chosen the 'revaluation model' and revalued their existing assets[1]. The impact of this choice has been to massively increase the 'value' of assets reflected on municipalities' Statement of Financial Positions, leading to higher levels of depreciation being reflected on their Budgeted Statements of Financial Performance. This in turn has resulted in municipalities reflecting 'non-cash deficits' on their Budgeted Statements of Financial Performance and consequently motivating for higher tariff increases in order to cover the cost of the higher depreciation.

It has also created a situation where different municipalities are managing their finances based on very different accounting models related to asset valuation. This is resulting in differences in the determination of depreciation costs for use in tariff setting, and is likely to result in widely

[1] Note that many municipalities, when implementing GRAP 17, had to bring a large number of assets onto their books for the first time because of incomplete asset registers. The result would also have been to significantly increase the value of their assets. However, the 'cost model' depreciation associated with these assets must be reflected on a municipality's Budgeted Statement of Financial Performance and be taken into account in setting tariffs.

divergent tariffs being set for the same service across municipalities. This is inequitable from a consumer perspective. It also makes comparative assessments of the financial sustainability of municipalities very difficult.

National Treasury has examined the budgeting and accounting treatment of depreciation resulting from the application of the ‘revaluation model’ to assets in terms of GRAP 17 and determined that including such depreciation in the Budgeted Statements of Financial Performance artificially inflates the municipalities’ actual depreciation and distorts the surplus/(deficit) calculation. *Therefore municipalities that have chosen the ‘revaluation model’ when implementing GRAP 17 must exclude the depreciation resulting from the revaluation of PPE when preparing their budgets and calculating any tariff increases.*

To facilitate this, the depreciation detail required on Supporting Table SA1 has been modified as follows:

Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Depreciation & asset impairment											
Depreciation of Property, Plant & Equipment											
Lease amortisation											
Capital asset impairment											
Depreciation resulting from revaluation of PPE	10										
Total Depreciation & asset impairment	1	-	-	-	-	-	-	-	-	-	-

The ‘Total Depreciation and asset impairment’ taken through to Table A4 excludes ‘Depreciation resulting from the revaluation of PPE’ associated with the adoption of the ‘revaluation model’ with the implementation of GRAP 17. The depreciation related to the ‘cost model’ of assets will thus still be taken through to Table A4 (Budgeted Statement of Financial Performance).

As regards the treatment on the Statement of Financial Position: ‘Depreciation resulting from the revaluation of PPE’ must be debited against the ‘Revaluation reserve account’.

4.4 Cash backing provided in capital replacement reserves

Each municipality needs to develop a strategy to fund infrastructure (both new and replacement) that takes into account internally generated funds, borrowing, development charges, transfers and any other relevant source of capital funding. A municipality’s capital replacement reserve must reflect the accumulated provision of internally generated funds designated to replace aging assets – it must therefore be fully cash-backed. Each municipality needs to develop a policy providing for ***an appropriate level of cash-backing in its capital replacement reserve*** for the replacement of assets. The appropriate size of the capital replacement reserve will differ for each municipality depending on its infrastructure funding strategy, the nature of its assets, the state of those assets, how the assets were financed and its capital replacement plans, as well as its ability to generate cash surpluses on its operating budget.

The capital replacement reserve policy should take the following issues into consideration:

i. Priority should be given to providing cash-backing for the replacement of assets used to provide basic services and revenue earning assets;

ii. Where assets were financed by borrowing, the level of cash-backing must take into consideration the likely funding strategy to replace the assets;

iii. Cash-backing should also be provided for assets that were originally financed by conditional grants (it must be assumed that national government *will not fund the replacement of such assets in the future*);

iv. The overall level of cash-backing should take into consideration the increasing cost of replacing assets;

v. The overall level of cash-backing should also take into account the opportunity cost of holding cash investments relative to the demand for new infrastructure and the cost of borrowing; and

vi. The conditions under which the municipality may 'draw-down' on these reserves to fund its capital budget.

From the above it is clear that it is neither necessary nor prudent for a municipality to create a capital replacement reserve that provides cash-backing for the replacement of all assets. To do so would entail forcing the current ratepayers and customers to pay for the replacement of all current assets by raising tariffs beyond levels that are properly cost-reflective. This is not equitable from an intergenerational perspective.

4.5 Budget and accounting treatment of VAT related to conditional grant expenditures

The accounting treatment of VAT in relation to conditional grant expenditures is dealt with in the *VAT Guide 419*. The discussion below deals only with the issues and accounting treatment arising from the 'own revenue' provision in MFMA Circular 48, namely:

i. How municipalities budget for conditional grants and the reclaimed VAT amounts?

ii. How municipalities report on their expenditure performance against conditional grant allocations and the impact this has on the calculation of 'unspent' amounts that have to be returned to the National Revenue Fund?

iii. How municipalities record the reclaimed VAT related to conditional grant expenditures in their Annual Financial Statements?

In addressing these issues, the point of departure is that ALL conditional grant allocations in the Division of Revenue Act are VAT inclusive, i.e. national government has budgeted to pay the VAT inclusive price of the goods and services purchased by municipalities using conditional grant funds.

The reasons for all conditional grant allocations in DoRA being VAT inclusive, and for the 'own revenue' provision in MFMA Circular 48 are as follows:

- It is administratively cumbersome to track conditional grant spending excluding VAT, and to ensure that the spiral of reclaimed VAT is spent in accordance with a particular grant framework.
- Treating the reclaimed VAT as 'own revenue' provides municipalities with a strong incentive to spend their conditional grants. If a municipality fails to do so, it forfeits the opportunity to earn 'own revenue' in the form of reclaimed VAT, as the full unspent amount has to be returned to the National Revenue Fund.
- Treating conditional grant allocations as VAT inclusive means that the recipient municipality does not have to cash flow finance the input VAT in order to spend the entire conditional grant. Many municipalities are unable to do so given their very constrained cash positions, and so there is a risk that they would under-spend on their conditional grants.

From the core policy position that all conditional grants are VAT inclusive, the following:

- A municipality must show its full capital conditional grant allocations reflected in the DoRA under 'transfers and grants – capital' on Tables A2, A3, A4 and A5, so as to facilitate proper tracking of these allocations (i.e. a municipality must not split the capital conditional grants revenue up into 'capital' and 'operational' components in the Budgeted Statement of Financial Performance and Capital Budget);
- A municipality must show the anticipated reclaimed VAT under 'current assets' on its Budgeted Statement of Financial Position (Table A6), which would flow through to the Budgeted Cash Flow (Table A7) (i.e. the reclaimed VAT does not get recorded as 'own revenue' on the Budgeted Statement of Financial Performance, but as a cash receipt on the Budgeted Cash Flow);
- A municipality must report the VAT inclusive expenditure against ALL conditional grants for purposes of DoRA. If they fail to do so, the reclaimed input VAT will reflect as 'unspent' and the municipality will be expected to return such 'unspent' funds to the National Revenue Fund.
- The accounting treatment of conditional grant spending in order to give effect to the 'own revenue' provision in MFMA Circular 48 is as follows:

Expenditure against operating conditional grant

Bank

	Debit	Credit	
1	100	100	2
4	13		

Conditional Grant (Creditor/Current Liability)

	Debit	Credit	
3	87 13	100	1

Statement of Financial Performance

	Debit	Credit	
2	87 (operating expense)	87 13 (conditional grant)	3

VAT (Control)

	Debit	Credit	
2	13	13	4

Expenditure against capital conditional grant

Bank

	Debit	Credit	
1	100	100	2
4	13		

Conditional Grant (Creditor/Current Liability)

	Debit	Credit	
3	87 13	100	1

Assets

	Debit	Credit	
2	87		

VAT (Control)

	Debit	Credit	
2	13	13	4

Statement of Financial Performance

	Debit	Credit	
		87 13 (conditional grant)	3

Where:

1 – Is receipt of the Gazetted conditional grant by the municipality in its 'bank' account. The counter entry is on 'conditional grant liability' as the conditional grant revenue is only recognised when the conditions attached to the use of the funding have been met.

2 – When the expenditure is incurred, the 'bank' is credited, and the counter debit entries are:

- in the case of operating conditional grants, split against 'statement of Financial Performance' and 'VAT (control)'; and

- in the case of capital conditional grants, split against 'assets' and 'VAT (control)'.

3 – The conditional grant liability is subsequently debited (reduced) by both the amount spent and the VAT amount and the grant revenue recognised (including VAT) is credited in the 'Statement of Financial Performance'.

4 – Is the receipt of the VAT refund from SARS.

Based on the above transaction, the input VAT that is reclaimed would ultimately form part of the municipality's cash and cash equivalents, which is a source of 'internally generated funds' that the municipality takes into consideration when compiling future budgets. As a matter of good practice, municipalities should use these internally generated funds to either further fund their capital budget or to fund the repairs and maintenance of assets, especially those built using conditional grants.

4.6 Accounting treatment of retention fees and conditional grant funded projects

The issue of the accounting treatment of retention fees related to projects funded by conditional grants has arisen due to the impact the mismanagement of the practice has on:

i. The level of conditional grant spending a municipality reports in terms of DoRA;

ii. The impression that the 'retention fees' are unspent conditional grant funds which must be returned to the National Revenue Fund; and

iii. The treatment of such funds when a municipality applies for the rollover of unspent conditional grant funds at the end of a financial year.

The correct accounting treatment of 'retention fees' (before they are paid = (1)) is as follows:

Asset

100 (1)	

Bank

	90 (1)

Retention (Creditor / Current Liability)

	10 (1)

When reporting on conditional grant spending, the municipality must report on the total value of the invoice due (including any retentions). This is because in accrual accounting the full invoice is regarded as expenditure incurred; it is only payment that has been delayed.

4.7 Districts transferring funds to local municipalities

The local government equitable share and many of the conditional grants are paid to municipalities in line with the *legal allocation of powers and functions* and not to the municipality that may actually be performing a particular basic service (water, electricity, sewerage and refuse removal).

In practice this means that equitable share and conditional grant funds for the basic services are paid to a district municipality that is the 'service authority' even though one or more of the local municipalities within the district are the de facto service providers. In such circumstances the district municipality MUST have a service delivery agreement with the local municipality and there is an expectation that the district will 'pass onto' the local municipality 'funds for the subsidisation of services to the poor' (see section 80 and 81 of the Municipal Systems Act).

Section 28 of the 2011 Division of Revenue Act provides that 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 (these transfers must be detailed on Table SA21, and reflected under 'transfers and grants' on Table A4).

National Treasury is aware that certain district municipalities are failing to transfer an equitable portion of the equitable share funds they receive to the local municipalities responsible for the de facto delivery of services within their areas, and are not spending conditional grants intended to address service delivery backlogs appropriately. As a result, the extension of basic services and the provision of free basic services by these local municipalities are being compromised.

To address this problem, National Treasury, working with the provincial treasuries, will evaluate all transfers made by district municipalities in their 2012/13 tabled budgets to local municipalities that are the de facto providers of basic services. Where a district is failing to transfer an equitable portion of its equitable share funds or is not spending conditional grants to address backlogs it will be instructed to alter its budget accordingly.

4.8 Benefits to mayors and councillors

Section 167 of the MFMA provides that any remuneration paid or given in cash or in kind to a person as a political office-bearer or as a member of a political structure of a municipality otherwise than provided for in the framework of the Public Office Bearers Act 20 of 1998 is regarded as an ***irregular expenditure*** *and the municipality must recover that remuneration from the political office bearer or member*. The section also provides that the municipality may not write-off any expenditures incurred in providing such remuneration, i.e. the irregular expenditure *must be* recovered from the political office bearer or member.

The remuneration referred to above includes

i. any bonus, bursary, loan or advance; and

ii. any other benefit such as:
   - the municipality giving or allocating laptops, notebooks, iPads or other gadgets to councillors and Mayors,
   - cell phone allowances in excess of the limits set in the Public Office Bearers Act;
   - the use of municipal workers' time for councillors' and Mayors' private or business interests;
   - the private use of official/municipal vehicles, and
   - the use of a mayoral residence without paying a *market related rental* to the municipality.

Municipalities are advised to ensure strict compliance with this provision.

4.9 Budget management issues dealt with in previous MFMA Circulars

Municipalities are reminded to refer to MFMA Circulars 48, 51, 54 and 55 with regards to the following issues:

1. *Mayor's discretionary funds and similar discretionary budget allocations* – National Treasury regards allocations that are not designated for a specific purpose to be bad practice and discourages them (refer to MFMA Circular 51).
2. *Unallocated ward allocations* – National Treasury does not regard this to be a good practice, because it means that the tabled budget does not reflect which ward projects are planned for purposes of public consultation and council approval (refer to MFMA Circular 51).
3. *New office buildings* – Municipalities are required to send detailed information to National Treasury if they are contemplating building new main office buildings (refer to MFMA Circular 51).
4. *Virement policies of municipalities* – Municipalities are reminded of the principles that must be incorporated into municipal virements policies (refer to MFMA Circular 51).
5. *Providing clean water and managing waste water* – Municipalities are reminded to include a section on 'Drinking water quality and waste water management' in their 2012/13 budget document supporting information (refer to MFMA Circular 54).
6. *Renewal and repairs and maintenance of existing assets* – Allocations to repairs and maintenance, and the renewal of existing infrastructure must be prioritised. Municipalities must provide detailed motivations in their budget documentation if allocations do not meet the benchmarks set out in MFMA Circular 55.
7. *Budgeting for an operating deficit* – Over the medium term, a municipality should budget for a moderate surplus on its Budgeted Statement of Financial Performance so as to be able to contribute to the funding of the Capital Budget. If the municipality's operating budget shows a deficit it is indicative that there are financial imbalances that need to be addressed (refer to MFMA Circular 55).
8. *Credit cards and debit cards linked to municipal bank accounts are not permitted* – On 02 August 2011 National Treasury issued a directive to all banks informing them that as from 01 September 2011 they are not allowed to issue credit cards or debit cards linked to municipal bank accounts (refer to MFMA Circular 55).
9. *Municipal financial management (IT) systems* – If a municipality is considering replacing or extending its financial management (IT) system, before it goes out to tender it must consult with the National Treasury in accordance with the process set out in MFMA Circular 57.

5 Conditional transfers to municipalities

As indicated above, National Treasury will issue a further Budget Circular for the 2012/13 financial year shortly after the tabling of the National Budget on 22 February 2012. This Circular will deal with any new conditional grant issues and processes related to the management of conditional grants.

At this stage in the budget process, municipalities are advised to use the indicative numbers for 2012/13 in the 2011 Division of Revenue Act to compile their budgets. This document is available on National Treasury's website at:

http://www.treasury.gov.za/legislation/acts/2011/Default.aspx

5.1 Conditional grant issues dealt with in previous MFMA Circulars

Municipalities are reminded to refer to MFMA Circulars 48, 51, 54 and 55 with regards to the following issues:

1. *Accounting treatment of conditional grants* – Municipalities are reminded that in accordance with accrual accounting principles, conditional grants should only be treated as 'transfers recognized' revenue when the grant revenue has been 'earned' by incurring expenditure in accordance with the conditions of the grant.

2. *VAT on conditional grants:* SARS has issued a specific guide to assist municipalities meeting their VAT obligations – ***VAT 419 Guide for Municipalities***. To assist municipalities accessing this guide it has been placed on the National Treasury website at: http://www.treasury.gov.za/legislation/mfma/guidelines/default.aspx.

3. *Interest received and reclaimed VAT in respect of conditional grants:* Municipalities are reminded that in MFMA Circular 48, National Treasury determined that:
   - Interest received on conditional grant funds must be treated as 'own revenue' and its use by the municipality is not subject to any special conditions; and
   - 'Reclaimed VAT' in respect of conditional grant expenditures must be treated as 'own revenue' and its use by the municipality is not subject to any special conditions (see paragraph 4.5 above, in this regard).
4. *Appropriation of conditional grants that are rolled over* – As soon as a municipality receives written approval from National Treasury that its unspent conditional grants have been rolled-over it may proceed to spend such funds (refer to MFMA Circular 51 for other arrangements in this regard).
5. *Pledging of conditional grant transfers* – the 2012 Division of Revenue Bill will contain a provision that allows municipalities to pledge their conditional grants. The end date for the pledges is extended to 2014/15. The process of application as set out in MFMA Circular 51 remains unchanged.
6. *Separate reporting for conditional grant roll-overs* – National Treasury has put in place a separate template for municipalities to report on the spending of conditional grant roll-overs. Municipalities are reminded that conditional grant funds can only be rolled-over once, so if they remain unspent in the year in which they were rolled-over they MUST revert to the National Revenue Fund.

7. *Payment schedule* – National Treasury has instituted an automated payment system of transfers to municipalities in order to ensure appropriate safety checks are put in place. Only the National Treasury approved and verified primary banking details would be used for effecting transfers.

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 All municipalities must prepare budgets in accordance with the regulations

Municipalities are reminded that the regulations apply to all municipalities and municipal entities as from 1 July 2009.

All municipalities and municipal entities must prepare annual budgets, adjustments budgets and in-year reports for the 2012/13 financial year in accordance with the Municipal Budget and Reporting Regulations. In this regard, municipalities must comply with both:

- The formats set out in Schedules A, B and C; and
- The relevant attachments to each of the Schedules (the Excel Formats).

If a municipality fails to prepare its budget, adjustments budget and in-year reports in accordance with the relevant formats, actions the National Treasury will take includes:

- The municipality will be required to resubmit their documentation in the regulated format by a date determined by the National Treasury;
- The municipality's non-compliance with the required formats will be reported to the Auditor-General; and
- A list of municipalities that fail to comply with the required formats will be tabled in Parliament and the provincial legislatures.

6.2 The Dummy Budget Guide

To assist municipalities with the preparation of their budget documents, National Treasury has issued a *Dummy Budget Guide*, consisting of the following four components:

1. The *MFMA Dummy Budget Guide*
2. The *Annual Budget of Batho Pele City* – the Annexure to the *Guide*
3. The Schedule A1 for Batho Pele City – the 'Excel' budget format schedule
4. The Schedule A1 Graphs and Figures Template.

The *Annual Budget of Batho Pele City* is intended to be a template that municipal officials can use as a basis and guide for producing their own municipality's budget documents. Therefore National Treasury fully intends that officials will copy the format and be guided by the explanations, the tables, graphs and figures in this document. The *Guide* and associated templates and documents can be downloaded from:

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

Note that National Treasury will be re-issuing all the above Dummy Budget Guide materials in due course so that they align to the changes that have been introduced by Version 2.4 of the Schedule A1.

6.3 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	012-315 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 Maya Anthony Moseki	012-315 5663 012-315 5174	Jordan.Maya@treasury.gov.za Anthony.Moseki@treasury.gov.za
Northern Cape	Marli J van Rensburg Yusuf Mayet	012-315 5303 012-315 5111 request ext. 6054	Marli.jansenvanrensburg@treasury.gov.za Yusuf.Mayet@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	012-315 5661 012-315 5725	Vuyo.Mbunge@treasury.gov.za Kevin.Bell@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

6.4 End to the phasing in of formats and tables

This will be the third year that all municipalities are required to prepare their annual budgets in accordance with the Municipal Budget and Reporting Regulations. National Treasury therefore expects all municipalities to provide a complete set of information in their annual budget tables, as well as the supporting tables (Schedule A1).

National Treasury, working with the provincial treasuries, will carry out a compliance check and where municipalities have not provided complete information, the budgets will be referred back to the municipalities, and an appropriate letter will be addressed to the Mayor and municipal manager. Municipal managers are reminded that the annual budget must be accompanied by a 'quality certificate' in accordance with the format set out in item 27 of Schedule A in the Municipal Budget and Reporting Regulations.

6.5 Consolidated budgets and reports for municipalities with entities

A municipality that has one or more municipal entities is required to produce:

- An annual budget, adjustment budgets and monthly financial statements for the parent municipality in the relevant formats; and

- A consolidated annual budget, adjustments budgets and monthly financial statements for the parent municipality and all its municipal entities in the relevant formats.

*Municipalities are reminded, that with effect from 1 July 2011, municipalities that have municipal entities must submit their **consolidated** annual budget, **consolidated** adjustment budgets and **consolidated** quarterly financial information to the National Treasury Local Government Database.*

In addition, the Schedule A1 that the municipality submits to National Treasury must be the consolidated budget for the municipality (plus entities) and not the budget of the parent municipality.

This is to ensure that there is consistency of reporting both across municipalities, but also in respect of the individual municipality with municipal entities.

6.6 Application of regulations to municipal entities

All municipal entities that provide normal municipal-type services (e.g. water, electricity, refuse removal, etc.) must comply with Chapter 3 of the Municipal Budget and Reporting Regulations.

Municipalities that have entities that must comply with Chapter 3 of the regulations must produce the **consolidated tables** prescribed in Schedule A of the regulations.

Municipalities that have entities that do not provide normal municipal services or where budgeted amounts are immaterial in relation to the parent municipality's budget <u>and</u> only comprise of funds transferred from the parent municipality may apply to National Treasury for an exemption in respect of those entities. Applications must be sent to Jan Hattingh (e-mail: jan.hattingh@treasury.gov.za) by 01 March 2012, and must include the following information:

(a) the name of the entity;

(b) a description of the ownership and governance arrangements of the entity;

(c) details of the functions and services the entity delivers;

(d) a copy of the entity's 2010/11 annual financial statements; and

(e) a copy of the entity's 2011/12 annual budget.

National Treasury will inform municipalities in writing on the outcome of these applications by 15 March 2012.

6.7 Municipal budgets and internal charges

This issue has been addressed extensively in MFMA Circulars 48 and 55. It has been noted that certain municipalities are still including internal charges on their budgets, monthly reports and submissions to the Local Government Database, thus overstating their revenues and expenditures.

To eliminate this bad practice, National Treasury will refer all 2012/13 budgets, monthly financial statements and Local Government Database returns that include internal charges back to municipalities for correction.

6.8 Distinguishing between cash and non-cash transfers and grants

A municipality can make cash ‘transfers and grants’ or non-cash ‘transfers and grants’ (often referred to as in-kind donations/grants) to organisations and individuals. To facilitate more accurate analysis of the municipality’s cash flow and financial position detail has been introduced on Supporting Tables SA1 and SA21 to reflect the cash and non-cash transfers and grants separately.

Note that:

- The targeted provision of free basic services to indigent households must be treated as a non-cash transfer and grant;
- Both cash and non-cash transfers and grants must be taken through to the Budgeted Statement of Financial Position on Table A4; and
- Only the cash transfers and grants must be taken through to the Budgeted Cash Flow on Table A7.

6.9 The cost of free basic services versus the revenue cost of free services

On Table A10 municipalities are required to provide information on (i) the estimated *cost of free basic services* and (ii) the estimated *revenue cost of free services*. To ensure consistent reporting please note the following:

1. *The estimated cost of free basic services:*
   - Covers only the free basic services according to national policy, i.e. 6 kl water, 50 kWh electricity, free sewerage and free weekly refuse removal;
   - Must be the *actual cost to the municipality* and not the revenue cost to the municipality of providing these services;
   - Includes the actual cost to the municipality of providing the free basic services to all households (which would be reflected as ‘revenue foregone’ on SA1); and
   - Includes the actual cost to the municipality of providing free basic services to targeted households (which would be reflected as ‘transfers and grants’ on SA21).

2. *The estimated revenue cost of free services:*
   - Covers all rates rebates, exemptions and discounts given to households and other customer groups either in general or specifically;
   - Covers all free services or service discounts given to households and other customer groups in relation to services for which the municipality normally charges;
   - Must be *the revenue cost to the municipality* of providing these rebates, discounts and free services;
   - Includes the *revenue cost to the municipality* of providing the free basic services to households according to national policy; and
   - Must not include the cost of debt write-offs.

The purpose of this information is to enable the council and municipality to get an understanding of the impact that ‘discounts’ and ‘free services’ have on the municipality’s revenues, and therefore tailor its ‘social package’ appropriately, taking into consideration the equitable share funds provided to subsidise the provision of free basic services. It also facilitates analysis of which customer groups benefit from a municipality’s ‘social package’

6.10 Completion of service delivery information on Table A10

Table A10 is becoming an increasingly important source of information on actual service delivery and service delivery backlogs. *A municipality that is the designated service authority for a particular service MUST report on the delivery status of that service to all households within its area, irrespective of whether the service is provided by a municipal entity, another municipality or an external mechanism.*

Where a district municipality is the designated service authority and a local municipality is the actual service provider, both the district and the local municipality must report on the delivery status of that service to all households within their respective areas. This will provide a useful cross-check, and enable National Treasury and the provincial treasuries to evaluate whether the district is passing on an equitable portion of the equitable share and conditional grants it receives.

To improve the accuracy of the information the following changes have been introduced by Version 2.4:

i. Table A10 now draws its information from Supporting Table SA9, where the information has to be entered according to service provider, namely:
    - Municipal in-house services
    - Municipal entity services
    - Services provided by 'external mechanism' – which includes municipalities that are providing services on behalf of another municipality in terms of a service level agreement.

ii. The 'total number of households' for each service must be the same as the total number of households in the municipality as reflected on Supporting Table A9. Four checks have been introduced on Table A10 to monitor this.

iii. Municipalities must enter the actual number of households – the rounding up to '000s has been removed.

National Treasury plans to prepare a special report on this service delivery information for Parliament in the second half of 2012. It is therefore important for each municipality to ensure its information is up-to-date and accurate.

6.11 MBRR issues dealt with in previous MFMA Circulars

Municipalities are reminded to refer to MFMA Circulars 48, 51, 54 and 55 with regards to the following issues:

1. *<u>Budgeting for revenue and 'revenue foregone'</u>* – The 'realistically anticipated revenues to be collected' that must be reflected on the Budgeted Statement of Financial Performance (Tables A2, A3 and A4) must exclude 'revenue foregone'. The definition of 'revenue foregone' and how it is distinguished from 'transfers and grants' is discussed in MFMA Circular 51.
2. *<u>Preparing and amending budget related policies</u>* – Information on all budget related policies and any amendments to such policies must be included in the municipality's annual budget document (refer to MFMA Circular 54).
3. *<u>2012/13 MTREF Funding Compliance Assessment</u>* – All municipalities are required to perform the funding compliance assessment outlined in *MFMA Funding Compliance Guideline* and to include the relevant information outlined in MFMA Circular 55 in their 2012/13 budgets (refer to MFMA Circular 55).

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 Monday, 9 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) 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.

If the budget documents are too large to be sent via email, arrangements for them to be downloaded from the municipality's website must be made with Elsabe Rossouw (email: Elsabe.Rossouw@treasury.gov.za).

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

For couriered documents

Ms Linda Kruger
National Treasury
40 Church Square
Pretoria, 0002

For posted documents

Ms Linda Kruger
National Treasury
Private Bag X115
Pretoria, 0001

After receiving tabled budgets, National Treasury 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.

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.

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
14 December 2011

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	To ensure the sample household bills are consistent across all municipalities.

No.	Sheet	Amendment	Reason
		profiles.	
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