

ANNEXURE F

BUDGET CIRCULARS



Municipal Budget Circular for the 2023/24 MTREF

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Introduction

This budget circular provides guidance to municipalities with their compilation of the 2023/24 Medium Term Revenue and Expenditure Framework (MTREF). It is linked to the Municipal Budget and Reporting Regulations (MBRR) and the Municipal Standard Chart of Accounts (mSCOA), and strives to support municipalities' budget preparation processes so that the minimum requirements are achieved.

Among the objectives of this budget circular is to demonstrate how municipalities should undertake annual budget preparation in accordance with the budget and financial management reform agenda by focussing on key "game changers". These game-changers include ensuring that municipal budgets are funded, revenue management is optimised, assets are managed efficiently, supply chain management processes are adhered to, mSCOA is implemented correctly and that audit findings are addressed.

Municipalities are reminded to refer to the annual budget circulars of the previous years for guidance in areas of the budget preparation that is not covered in this circular.

1. The South African economy and inflation targets

The National Treasury forecasts real economic growth of 1.9 per cent in 2022, compared with 2.1 per cent projected in the 2022 Budget Review, in response to global and domestic shocks. Growth is projected to average 1.6 per cent from 2023 to 2025. Implementing structural reforms, especially in the energy sector, remains crucial to improve the economy's productive capacity and competitiveness.

The recovery in economic activity that began in 2021 was driven by a strong rebound in global economic activity, high commodity prices and easing COVID-19 restrictions. The scarring impact of the pandemic on employment and investment decisions will likely weigh on the recovery over the medium term. Investment remains well below pre-pandemic levels.

The economy grew by 1.4 per cent in the first half of 2022 compared with the first half of 2021. Real GDP grew more than expected in the first quarter of 2022, with output returning to pre-pandemic levels. However, a deteriorating global environment, flooding in KwaZulu-Natal and the Eastern Cape, industrial action in the electricity and mining sectors, and prolonged and intense power cuts resulted in a broad-based contraction across most sectors during the second quarter. The third quarter was marked by frequent and prolonged power cuts, which significantly disrupted economic activity.

The following macro-economic forecasts must be considered when preparing the 2023/24 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections, 2021 - 2026

Fiscal year	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Forecast		
CPI Inflation	5.2%	6.8%	4.7%	4.6%	4.6%

Source: Medium Term Budget Policy Statement 2022.

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

It is noted that variations in regional specifics are possible, however, any variation of assumptions must be explicitly set out and well explained in the budget narratives, in the absence of which the Treasuries will refer the budget back to council for alignment to the macroeconomic performance projections.

2. Key focus areas for the 2023/24 budget process

2.1 Local government conditional grants allocations

Over the 2023 MTEF period, conditional grant allocations to municipalities will grow below inflation. This is due to a higher 2022/23 baseline (R3.8 billion) added to local government conditional grants in the 2022 Division of Revenue Amendment Act. Over the next three years, total local government resources, including the equitable share and indirect conditional grants increase at an annual average rate of 6 per cent.

The local government equitable share increases at an annual average rate of 7.8 per cent and municipal conditional grants increase by 3.6 per cent over the 2023 MTEF period. The local government equitable share formula has been updated to account for projected household growth, inflation and estimated increases in bulk water and electricity costs over the 2023 MTEF period.

The annual Division of Revenue Bill will be published in February 2023 after the Minister of Finance's budget speech. The Bill will specify grant allocations and municipalities must reconcile their budgets to the numbers published herein.

Municipalities are advised to use the indicative numbers presented in the 2022 Division of Revenue Act to compile their 2023/24 MTREF. In terms of the outer year allocations (2025/26 financial year), it is proposed that municipalities conservatively limit funding allocations to the indicative numbers as presented in the 2022 Division of Revenue Act for 2022/23. The DoRA is available at:

<http://www.treasury.gov.za/documents/national%20budget/2022/default.aspx>

2.2 Re-enforcing the 2023 Division of Revenue Bill, (DoRB) to facilitate improved intergovernmental relations

Towards enforcing a system of good intergovernmental relations as envisaged in the Chapter 3 of the Constitution and subsequent related legislation, the National Treasury would like to remind municipalities of Section 31 of DoRA that articulates the facilitation of personal liability for unnecessary litigation. Going forward, a municipality may therefore only institute litigation against any organ of state, state-owned enterprise, public-and/ or municipal entity after exhausting all dispute resolution mechanisms required and/ or available to the municipality in terms of existing intergovernmental relations processes, policy and/ or any related contract with the municipality, including in terms of the Municipal Finance Management Act, 2003, the Intergovernmental Relations Framework Act, 2005, and/ or the Electricity Regulation Act, 2006 (dispute processes administered by NERSA).

The 2023 DoRB will facilitate the personal liability of and refund of any expenditure related to such litigation to the national revenue fund (NRF) by any person responsible for the institution of litigation by a municipality without having exhausted all the available dispute resolution mechanisms. This will be done through the equitable share off-setting processes. Municipalities, parallel to instituting any litigation against any organ of state, must report such litigation to the Auditor-General, the National Treasury and to the relevant provincial treasury. The report must provide the details of all the dispute resolution processes that were attempted, supported by information explaining the failure of these attempts.

Division of Revenue Amendment Bill, 2022 (DoRAB)

Disaster response funding

Conversion of disaster response grants – To allow for adequate response to the April 2022 floods, funding was shifted between the disaster relief grants in August 2022. R145 million

was shifted from the Provincial Disaster Response Grant to the Municipal Disaster Response Grant and R120 million was shifted from the Municipal Emergency Housing Grant to the Provincial Emergency Housing Grant.

Additional funding for disaster response grants – In response to disasters that have occurred, most of the disaster funding for 2022/23 had been depleted by the time of the tabling of the DoRAB. To enable for response should a disaster(s) occur in the remaining months of the current financial year, R248 million is added to the Municipal Disaster Response Grant to enable immediate response by municipalities.

Additional funding for disaster reconstruction and rehabilitation¹ – For the reconstruction and rehabilitation of municipal infrastructure damaged by flash floods in the Western Cape (Overberg District Municipality, Cape Winelands District Municipality and Garden Route District Municipality) in December 2021 and the April 2022 floods in the Eastern Cape (Winnie Madikizela-Mandela Local Municipality) and KwaZulu-Natal (eThekweni Metropolitan Municipality, uMhlathuze Local Municipality, uThukela District Municipality, uMgungundlovu District Municipality and iLembe District Municipality), R3.3 billion is added to the Municipal Disaster Recovery Grant.

Purchasing of land for relocation of flood victims – R92 million is added to the Informal Settlements Upgrading Partnership Grant: Municipalities for eThekweni Metropolitan Municipality for the purchase of land identified for the relocation of displaced flood victims.

Changes to local government allocations

Roll-over of funds in the Integrated National Electrification Programme (municipal) Grant – R1 million is rolled over in the Integrated National Electrification Programme (municipal) Grant to fund 50 electrification connections in Swellendam in Dikgatlong Local Municipality.

Roll-over of funds in the indirect Regional Bulk Infrastructure Grant – R15 million is rolled over in the indirect Regional Bulk Infrastructure Grant to fund operational payments for the Vaal River pollution remediation project in Emfuleni Local Municipality.

Reprioritisation in the Neighbourhood Development Partnership Grant – R100 million of the Neighbourhood Development Partnership Grant is shifted from Schedule 5, Part B (direct) to Schedule 6, Part B (indirect) to fund project preparation, planning and implementation for municipalities that are having administrative and financial challenges that are affecting project implementation. These funds will be used for projects they were allocated for in the direct component. Affected municipalities are Mogale City Local Municipality, KwaDukuza Local Municipality and Emfuleni Local Municipality.

Changes to gazetted frameworks and allocations

Municipal Disaster Response Grant – The grant framework for the Municipal Disaster Response Grant is amended to allow for spending to respond to the disasters that occurred in December 2021 and April 2022.

Informal Settlements Upgrading Partnership Grant: Municipalities – The grant framework for the Informal Settlements Upgrading Partnership Grant is amended to ring-fence funds for

¹ There was an oversight in the allocations to Western Cape and KwaZulu-Natal, wherein the allocations or parts thereof allocated to the district municipalities in the DoRAB ought to have been allocated to the respective local municipalities in these districts. This is explained in detail in the section "Correction of errors in the Municipal Disaster Recovery Grant framework and allocations to municipalities" below.

the purchase of identified land for the relocation of flood victims who were previously residing in informal settlements that were washed away by April 2022 floods in eThekweni Metropolitan Municipality.

Municipal annexures – Changes to previously gazetted municipal allocations include a change of the name of a municipality. The name of Engcobo Local Municipality in the Eastern Cape is updated to Dr A.B. Xuma Local Municipality as per the Gazette published in terms of section 12 of the Local Government: Municipal Structures Act, on 30 May 2022.

Correction of errors in the Municipal Disaster Recovery Grant framework and allocations to municipalities

The National Disaster Management Centre (NDMC) has requested changes to the in-year allocations for the Municipal Disaster Recovery Grant in the DoRAB tabled in Parliament. Part of the funding allocated to uThukela and iLembe district municipalities in KwaZulu Natal (page 36 of the DoRAB), should have been allocated to Alfred Duma and KwaDukuza local municipalities, respectively. The allocations made to the Cape Winelands, Overberg, and Garden Route district municipalities in the Western Cape (page 39 of the DoRAB), should have been made to Breede Valley; Theewaterskloof and Swellendam; and Oudtshoorn and George local municipalities, respectively. These corrections also affect the ring-fencing in the grant framework (page 28 of the DoRAB).

Parliament has approved that the National Treasury correct the allocations and effect the required changes to the MDRG framework, as part of section 15(1) of the 2022 DoRA to ensure that MDRG allocations are correctly allocated to the municipalities assigned for the functions.

3. Pension fund defaults

There has been a growing trend where municipalities are deducting pension from the employees but are not paying it over to their pension fund. This in our view is inconsistent with the intent and spirit of the MFMA and constitute an act of financial misconduct in terms of section 171 of the MFMA read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings and potentially also a criminal offence in terms of section 173 of the MFMA read with other applicable legislation. Municipal Councils should refer these actions to the Disciplinary Boards for further investigation and should also consider laying criminal charges against the accounting officer and other responsible officials that has failed to perform the responsibility outlined in terms of section 65(2)(f) of the MFMA which states that “the accounting officer of a municipality must take all reasonable steps to ensure that the municipality complies with its tax, levy, duty, pension, medical aid, audit fees and other statutory commitments”. Municipal Councils should also consider further measures and actions in terms of the Pension Funds Administration Act, as may be applicable.

4. Municipal Standard Chart of Accounts (mSCOA)

4.1 Release of Version 6.7 of the Chart

On an annual basis, the mSCOA chart is reviewed to address implementation challenges and correct chart related errors. Towards this end, Version 6.7 is released with this circular.

Version 6.7 of the chart will be effective from 2023/24 and must be used to compile the 2023/24 MTREF and will be available from 20 December on the link below:

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

Kindly note that, in accordance with section 8(2)(j) of the Municipal Property Rates Act (MPRA) as amended in 2014, municipalities may apply for categories other than the categories in 8(2)(a) to (i). Towards this end the Minister of Cooperative Governance and Traditional Affairs approved the following categories:

- Sports Clubs and Fields for Bitou Municipality and
- Residential sectional title garages for Drakenstein Municipality.

These categories were only approved for use by municipalities indicated above. System vendors must therefore block the use of these categories for all other municipalities. The Project Summary Document (PSD) on the National Treasury webpage will be aligned to the chart changes in version 6.7 where applicable. The PSD is also available on the above link.

For the National Treasury to consider a new chart change in version 6.8 of the chart, the issue must be logged with all relevant background and details on the *mSCOA* FAQ portal by 31 August 2023. The *mSCOA* FAQ portal can be accessed by all registered GoMuni users on the following link. https://lq.treasury.gov.za/ibi_apps/signin

4.2 Amendments to the regulated A1 schedules

The following tables of the A1 Schedule that was regulated in terms of the Municipal Budget and Reporting Regulations (MBRR), have been aligned to the *mSCOA* and Generally Recognised Accounting Standards (GRAP):

- A4: Statement of Financial Performance; and
- A6: Statement of Financial Position

In addition, tables A8 and A10 have been linked to the *mSCOA* data strings and will be included in the 2023/24 budget reports available on the GoMuni portal from 01 July 2023.

The amended and protected version of the A1 schedule will be available from 20 December on the link below:

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

System vendors and municipalities that are managing their own in-house systems must programme the amended schedules on their financial systems. Input fields for supporting tables that are not part of the non-financial data string must be created to ensure that a complete A schedule is generated from the core municipal financial system.

The *mSCOA* Regulations require that municipalities budget, transact and report on legislated *mSCOA* segments and directly on the core financial system and submit the required data strings directly from this system to the GoMuni Upload portal. To ensure that the data strings submitted are credible, municipalities must:

- Lock the budget adopted by Council on the core municipal financial system before submitting the budget (ORGB) data string to the GoMuni Upload portal;
- Close the core financial system at month-end as required in terms of the MFMA before submitting the monthly data string to the GoMuni Upload portal; and
- Generate the regulated MBRR Schedules (A, B and C) directly from the core municipal financial system.

The preparation of budgets on excel spreadsheets that is captured in the system at a later stage and manual correction of data strings by municipal officials or system providers are not allowed in terms of the *mSCOA* Regulations. Where a municipality makes use of a stand-alone 3rd party sub-system or a system provider has entered into an agreement or consortium for the provision of certain functionality with a 3rd party sub-system provider, such a 3rd party sub-system should host the relevant part of the *mSCOA* chart to seamlessly integrate with the core financial system without manual intervention.

4.3 Credibility of *mSCOA* data strings

The credibility and accuracy of the data strings must be verified by municipalities before submission as the data strings submitted will be used as the single source for all analysis and publications in the 2023/24 municipal financial year.

Municipalities have been given access to the GoMuni portal in April 2022 and should use the reports on GoMuni to verify the credibility of their submissions. It should be emphasized that errors in the data can only be corrected in the next open period. e.g., errors in the tabled budget (TABB) data string can only be corrected in the adopted budget data string (ORGB). Municipalities are not allowed to open closed periods to make corrections.

Municipalities are reminded that incorrect or incomplete data string submissions is considered as non-submission.

The credibility of the *mSCOA* data strings remains a concern in the following areas:

The inclusion of opening balances in data strings

Municipalities and system vendors must ensure that opening balances are included in the budget and in-year data strings. The opening balances at year end (month 12 – M12) of the previous financial year must be rolled over to the first month (M01) and updated with pre-audited (PAUD) and audit (AUDA) adjustments in the current financial year in the *applicable open period*. In other words, if the audit is completed on 31 October, then the changes in the opening balances must be reflected in the in-year submission for November 2022 (M05 submission). If opening balances and changes thereto are not included in the budget and in-year data strings, the C schedules will not populate correctly. This means that the movement of the balance sheet items will not have a starting point and the Statement of Financial Position (balance sheet) will be incorrect.

Accounting for Water Inventory

As per the guidance in MFMA Budget Circular No.115 (dated 04 March 2022), municipalities must budget and account for bulk water purchases as **inventory** under current assets in the Statement of Financial Position as per GRAP 12 (paragraph. 07).

In terms of GRAP 12:

Inventories are assets:

- a. *In the form of materials or supplies to be consumed in the production process;*
- b. *In the form of materials or supplies to be consumed or distributed in the rendering of services; and*
- c. *Held for sale or distribution in the ordinary course of operations, or*
- d. *In the process of production for sale or distribution.*

Inventory acquired through non-exchange transactions should be recorded at its fair value as at the date it is acquired. The cost of inventory, except for non-purified water, will be determined or recognised in accordance with paragraph 25 and 26, which is the primary and secondary costs in getting the water either to the treatment works or to the users of the water.

It is important to note that water cannot be issued if it was not purchased or brought into the inventory through system input transactions. Therefore, the total input volume of water related to water purified and water from natural sources should include both primary and secondary cost components. The allocation of secondary cost to the input volume of water will necessitate the utilisation of the Costing Segment in the mSCOA. This is crucial in determining cost reflective tariffs for water.

The fair value of water from natural resources such as boreholes, springs and fountains may be determined by the primary and secondary cost components. Secondary costs include:

- Labour
- Extraction cost
- Distribution cost
- Chemicals/ Treatment
- Maintenance
- Infrastructure
- Depreciation charges

The municipality must account for water from natural resources as follows:

Debit: System Input Volume: Natural Resources

Credit: Gains and Losses: Water at fair value

Water inventory must be budgeted to be acquired and recorded in the Current Assets: Inventory: Water as indicated below. The movement accounts in the mSCOA structure makes provision for the different methods of acquiring and the consumption/ issuing of Water inventory.

Current assets:

- Inventory: Water Opening balance: Non-Funding Transactions
- Inventory: Water: System Input volume: Bulk Purchases: Water Treatment/Natural Resources
- Water Authorised Consumption:
 - a) Billed Unmetered Consumption
 - b) Un-Billed Authorised Consumption
 - c) Billed Metered Consumption
- Inventory: Water Losses (Apparent and Real Losses)

Water that is issued to Consumers must be issued from the inventory and expensed in the **Expenditure:** Inventory: Consumed -Water.

Water losses will reduce the Water inventory in current assets and the corresponding amounts should be captured in **Gains and Losses:** Inventory: Water: Fair value

It is important to note that the change in accounting for water through the inventory purchased process and the change of using a methodology to report the balance of water as at year-end may impact on the Annual Financial Statements (AFS). Municipalities must ensure that they update their accounting policy, document this process, and provide comparative figures when assessing and reporting their water balance to ensure that the GRAP guidelines of changes in reporting and materiality is applied correctly.

The Local Government Municipal Property Rates (MPRA) Amendment Act, 2014

Municipalities are reminded that section 8 of the MPRA on the determination of categories of rateable properties has been revised through the Local Government Municipal Property Rates Amendment Act, 2014 ("the Amendment Act").

Municipalities were required to implement the new property categorisation framework by not later than 01 July 2021. The *mSCOA* chart Version 6.7 will only make provision for the new framework. The old framework has been retired and municipalities must prepare their 2023/24 MTREF Budgets accordingly.

Fixed Asset Register

Municipal financials systems must comply with the minimum business processes and system requirements on fixed asset registers as articulated for the asset management module in MFMA Circular No 80. The asset management module should be embedded in the core financial system or seamlessly integrate from a third-party sub-system to the core financial system. This will enable the regular and seamless updating of the fixed asset register. The register must contain the following information as a minimum requirement:

- Description of the asset
- Date of acquisition or brought into use
- Purchase cost
- Location of the asset
- Function responsible for the asset
- Current value
- Depreciation and method utilised
- Remaining life of the asset
- Maintenance information
- Insurance Coverage

Municipalities will be required to upload their updated fixed asset register in a PDF format on the GoMuni Upload portal as part of their 2023/24 MTREF tabled and adopted budget submission and thereafter on a quarterly basis as part of their in-year reporting.

Recording of Schedule 6B Grants in *mSCOA*

Grants allocated in terms of Schedule 6B of DoRA should be recorded in terms of *mSCOA* as an allocation-in-kind. This means that the municipality will only record the transaction once they received a completed asset.

Importantly, a Schedule 6B grant may not be transferred to the end-user of the asset to construct the asset as this is in contravention with the conditional grant framework. If a transferring officer of a Schedule 6B grant consider the municipality capable of constructing its own asset, the grant should be re-gazetted and reclassified as a Schedule 5B grant. The grant will then be transferred directly to the municipality to construct the asset and the receipt and expenditure of the grant must be in accordance with GRAP 17. An adjustments budget in terms of Section 28(2)(b) of the MFMA and Regulation 23(3) of the MBRR must be adopted to include the grant funding and project in the MTREF budget.

In the case where a municipality is constructing an asset for a national department but will not be the end-user of the asset being constructed, the accounting must be done in terms of GRAP 11. There will be VAT implications as the municipality will be a contractor and act as an agent. It is important to ensure that the contract between the municipality and the department outlines the responsibilities of all parties.

Municipalities must ensure that they are making provision for VAT in accordance with the VAT Act, 1991 (Act No. 89 of 1991) and the VAT 419 guide issued by SARS. The National Treasury issued *mSCOA* Circular No.12 (dated 01 October 2021) that provides guidance on the recording of VAT in the *mSCOA*.

Impact of Balance Sheet Budgeting and Movement Accounting on Cash Flow Tables

From the analysis of the *mSCOA* data strings it is evident that the cash flow tables (A7, B7 and C7) are still not populating correctly or completely. This can be contributed to the fact that a number of municipalities still do not use balance sheet budgeting and movement accounting. Guidance on the use of balance sheet budgeting and movement accounting to populate tables A7, B7 and C7 correctly was provided in MFMA Budget Circular No. 107 (dated 04 December 2020) and *mSCOA* Circular No. 11 (dated 04 December 2020).

4.4 Regulation of Minimum Business Processes and System Specifications

National Treasury will review and regulate minimum business processes and system specifications for *mSCOA* by the end of 2024/25. In preparation for the regulation of the minimum requirements, municipalities should ensure that they comply fully with the current minimum business processes and system specifications articulated in MFMA Circular No. 80 (dated 08 March 2016).

Where a municipality is not fully compliant with the *mSCOA* requirements, a *mSCOA* Road Map must be in place to drive and fast track the *mSCOA* implementation in the municipality. The *mSCOA* Steering Committee, chaired by the Accounting Officer or his/ her delegate, must use the *mSCOA* Road Map to track progress and take correction actions where required.

Road Maps must be reviewed and updated annually as part of the budget process is updated and submitted to Council for approval together with their 2023/24 MTREF budget. Municipalities will be required to upload their updated *mSCOA* Road Maps in a PDF format on the GoMuni Upload portal as part of their 2023/24 MTREF tabled and adopted budget submission and thereafter on a quarterly basis as part of their in-year reporting.

Municipalities should ensure that they budget sufficiently to become and remain *mSCOA* compliant.

Guidance on the content of the *mSCOA* Road Map was provided in MFMA Budget Circular No. 115 (dated 04 March 2022).

4.5 *mSCOA* Training Initiatives

Training to municipalities and municipal system vendors

The National Treasury, in conjunction with CIGFARO, will conduct monthly training sessions aimed at municipalities, municipal system vendors and other relevant role-players. The training will focus on technical aspects of budgeting, transacting and reporting in the *mSCOA* and is aimed at improving the quality of *mSCOA* data strings. The draft programme is attached as **Annexure A**.

***mSCOA* eLearning Course**

The National School of Government is hosting the *mSCOA* eLearning Course that was developed by the National Treasury. The *mSCOA* eLearning Course provides government officials with the basic knowledge on the reform and how to record transactions using the *mSCOA*.

Government institutions can enrol their employees for this course by sending a request for training to the NSG at contactcentre@thensg.gov.za. If your institution has not attended any training with the NSG previously, then you will also be required to register on the NSG database. The mSCOA eLearning Course will be offered as no cost until 31 March 2023. Thereafter, delegates will have to pay to attend the course.

Any queries in this regard must be directed to the NSG at contactcentre@thensg.gov.za or tel number: 086 100 8326.

5. The revenue budget

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

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

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

5.1 Maximising the revenue generation of the municipal revenue base

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

The purpose of the above mentioned MFMA Circulars is to ensure that the municipalities are using their entire revenue base as the basis for the revenue budget. It is essential that municipalities reconcile their most recent consolidated valuation roll data to that of the current billing system data to ensure that revenue anticipated from property rates is realistic. The municipalities should implement a data management strategy and develop internal capacity to perform these reconciliations and investigations to improve completeness of billing.

One of the aims of the reconciliation process is to identify exceptions, i.e. records on the roll and not on the billing system and records on the billing system and not on the roll. In addition, the reconciliation must identify duplicated records, missing data, and data errors. These exceptions should then be investigated, and remedial action strategies developed for data cleansing and other corrective actions. The Debtors Ageing data should also form part of the reconciliation process so that "debtors" can be tracked and assessed at a property record level and prioritised for verification of rates liability measured against a MPRA property and owner.

To facilitate reconciliation of the separate databases (Roll and Billing), a unique property identifier (common primary unique link code) must be created and populated for each rateable property on the roll system and on the rates billing system. This property identifier must be unique, without duplicates, and remain constant for the life of the property. The standards adopted by the South African Council for the Property Valuers Profession (SACPVP), namely South African Standard: Municipal Valuations for Property Rating, specifies that the Surveyor General Code SG 21-digit Code, derived, and created from the property description, be applied for all registered full title property defined in terms of part (a) of the definition of property.

For all other MPRA defined property, Part (a) Sectional Title, Part (b) Registered Rights, Part (c) Land Tenure Rights and Part (d) PSI, and apportioned multiple use property in terms of sections 8(2)(i) and 9(2), an added suffixed 5 digits to the SG 21-digit code must be assigned by the designated municipal valuer, thereby creating a unique 26-digit code. The municipality must ensure that the SG21 digit code and 26-digit coding system is applied in their valuation roll management system and billing system and engage with their designated municipal valuer and systems service providers to implement the unique property identifier.

Further it is important that municipalities who are performing a general valuation (GV) to implement a new valuation roll on 1 July 2023, must also as best practice compare the current consolidated roll to the new valuation roll. This can identify any anomalies and errors of category of property and market values for review and investigation and the option of lodging an objection by the municipality, where applicable. This process should also identify outliers and shifts in market values by category and area so that tariffs on the new roll can be modelled and determined in an equitable manner to avoid rates shocks.

Municipalities should undertake this exercise as a routine practice during the budget process so that supplementary adjustments to the valuation roll are kept up to date. In order to ensure that the most updated information is used for the reconciliations, municipalities are reminded to adhere and comply with s23(1)(2) of the MPRA and therefore use the Part A register as the basis for performing the reconciliations going forward.

Furthermore, municipalities are also advised and expected to comply with s8(1) of the MPRA in terms of the billing methodology that needs to be specified within their policies to ensure that the correct categories (based on the selection made by the municipality) are used in the reconciliation process.

The list of exceptions derived from this reconciliation will indicate where the municipality may be compromising its revenue generation in respect of property rates or whether the municipality is overstating its revenue budget.

A further test would be to reconcile this information with the Deeds Office registry. In accordance with the MFMA Circular No. 93, municipalities are once more requested to submit their reconciliation of the Valuation roll/Part A register to the billing system to the National Treasury on a quarterly basis by no later than the 10th working day. A detailed action plan must accompany the reconciliation where variances are noted.

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

No operation can be sustainable if it does not collect its revenue. A municipality is no different. There is a misconception that a municipality may not interrupt or restrict the supply of water services of a defaulting consumer. The National Treasury confirms that neither the

Water Services Act, 1997 (Act No. 108 of 1997) or any other legislation prevents a municipality from cutting the supply of water to a defaulting consumer unless the consumer is an indigent in which case the water services to that household must be restricted to the national free basic water limit of 6 kilolitre water monthly (or 50 kilowatt hours in the case of free basic electricity monthly). This was confirmed by the Constitutional Court in the matter of Mazibuko and Others v City of Johannesburg and Others (CCT 39/09) [2009] ZACC 28; 2010 (3) BCLR 239 (CC); 2010 (4) SA 1 (CC) (8 October 2009).

Municipalities are urged to use the restriction/ interruption of supply of both water and electricity services as a collection tool. Effective from the tabling and adoption of the 2023/24 MTREF, municipalities' By-laws and policies must facilitate this and clearly stipulate the order in which any partial payment of the consolidated municipal bill (including property rates) will be applied as well as the process before the supply of water and electricity services will be cut. The National Treasury recommended that any partial payment firstly be applied to property rates, wastewater, waste management, water and lastly to electricity. When interrupting or restricting the supply of water it is important that such is undertaken together with the municipal engineer(s) to ensure a continued minimum supply of waste water.

5.2 Setting cost-reflective tariffs

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

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

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

The National Treasury issued a tariff setting tool and guide as part of MFMA Budget Circular No. 98 (refer item 4.2) on 6 December 2019 and since 2019, encouraged municipalities to utilise the tool. **With effect, the 2023/24 MTREF, all municipalities (except metropolitan cities and district municipalities that do not provide any services) as part of both the tabled and adopted MTREF submissions must submit the completed National Treasury tariff tool (in excel format)** illustrating that the revenue component of the budget is credible and funded and that the municipality's tariffs are cost reflective. If the municipality's initial calculation results in high increases to facilitate cost-reflectiveness, it is recommended that such are phased in over 3 to 5 years. The municipality's strategy in this regard should be included as part of the budget narratives.

This tool will assist in setting tariffs that are cost-reflective and enable a municipality to recover costs to fulfil its mandate. Going forward it is also imperative that every municipality fully embrace the Municipal Standard Chart of Accounts (mSCOA): costing component. Considering, mSCOA implementation is entering its sixth year of implementation, all municipalities must fully embrace and report also utilising the costing segment correctly. The National Treasury Municipal Costing Guide is available on the link below on the National Treasury website.

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

5.3 Tariffs – achieving a balance between cost-reflectiveness and affordability

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other consumers while ensuring the financial sustainability of the municipality.

When setting tariffs, it is therefore critical to understand the economic environment specific to the municipality and consideration should include at least –

- *The socio-economic profile undertaken for the municipality* available on the National Treasury GoMuni portal – municipalities are encouraged to annually update their own socio-economic profile using the template model available on GoMuni;
- *The most recent average monthly household income in the municipality* as per Statistics South Africa (Stats SA) available on [Statistics South Africa | Improving Lives Through Data Ecosystems \(statssa.gov.za\)](http://Statistics South Africa | Improving Lives Through Data Ecosystems (statssa.gov.za));
- *The average property value in the municipality* per its most recent approved general valuation roll and/ or supplementary general valuation roll;
- *The number of indigent households in the municipality*, including any variation in the number of indigent households included in the Equitable Share: free basic services component for the municipality vs the municipality's own indigency level discretion; and
- *The economic drivers and activities specific to the municipal area²; etc.*

The municipality's tariff-setting or other committee tasked with this role must understand and deliberately reflect on this context during the tariff-setting process. Considering the average monthly household income, the median affordable municipal bill would ideally not exceed proportionally the average monthly household income. This median affordable bill, in combination with the median average property value should inform the basis to determine any rebates to households with income below the median.

It is also important when setting particularly water and electricity tariffs that municipalities consider setting two-tier tariffs, that include a basic availability charge to recover the fixed (direct and indirect) cost associated with the service in conjunction with consumption-based tariff bands. For example, in a drought, such tariffs will facilitate the ability to pay for infrastructure and maintenance, treating chemicals and salaries, etc. while parallel facilitating water restriction based on inclining tariffs as consumption increase. Furthermore, it is important to link the municipality's water tariffs to dam levels, also approved as part of the budget process. For example, if the dam levels drop to 60 per cent the first tier of restriction tariffs should become applicable in terms of the municipality's approved tariff policy.

It is also noted that NERSA approves seasonal tariffs for Eskom but not necessarily for the municipality. It is important that the municipality clearly factor this in its tariff application to NERSA, illustrating the cashflow crunch if the municipality is not similarly allowed a seasonal tariff to recover the higher Eskom bulk cost during winter months.

Lastly, municipalities are cautioned against setting tariffs that include operating inefficiencies. This could lead to tariffs falling into the unaffordable range.

The Consumer Price Index (CPI) inflation is forecasted to be within the 3 to 6 per cent target band; therefore, municipalities are required to **justify all increases in excess of the projected inflation target for 2023/24** in their budget narratives and pay careful attention to

² The spatialised tax data is now available through National Treasury for all municipalities that provides an up to date information on economic activity within a municipal boundary.

tariff increases across all consumer groups. In addition, municipalities should include a detail of their revenue growth assumptions for the different service charges in the budget narrative.

5.4 Bulk Account Payments and Concessions

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

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

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

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

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

5.5 Critical Notice Affecting STS Meters

As highlighted in previous MFMA Circular No. 115 (dated 06 December 2022) municipalities are once again alerted that there is still a pending business risk to the prepayment metering industry that requires urgency of action. The token identifiers (TID) used to identify each credit token will run out of available numbers in November 2024, at which point all STS meters will stop accepting credit tokens.

The remedy is to visit each meter and enter a special set of key change tokens in order to reset the meter memory. Municipalities are advised that the National Treasury, through the Office of the Chief Procurement Officer (OCPO), will soon facilitate a transversal contract for the provision of auditing, re-calibration and re-configuration services for standard transfer specification compliant prepayment meters that align to minimum and critical technical specifications for local government. In this respect the development of the transversal contract for smart prepaid meters as per NRS 049 (per latest approved version) is at an advanced stage and should be issued shortly by National Treasury.

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

- Against proceeding prior to the OCPO having issued and awarded the transversal contract for the provision of inter alia auditing, re-calibration and re-configuration services for standard transfer specification compliant prepayment meters Terms of Reference (ToR); and

- That, with immediate effect, you must obtain the National Treasury's input prior to proceeding with any current procurement or proposed procurement for this purpose or any related solution or similar. This is to prevent unnecessary and wasteful expenditure on such solutions. Any request for National Treasury's input on the current or planned procurement of any related solution or similar or component thereof, must be directed to the National Treasury for the attention of the Local Government Budget Analysis Unit (Mr. Sadesh Ramjathan) Sadesh.Ramjathan@treasury.gov.za.

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

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

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

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

5.6 Completeness and credibility of revenue related information in the Budget

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

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

Going forward the Treasuries will place increased attention and focus on the adequacy of municipalities' submissions. The National Treasury regards this non-compliance to include the minimum level of information as serious and if persistent will consider applying the available legal sanctions, including recourse in terms of section 216(2) of the Constitution. In this context, National Treasury will particularly focus on the completeness of asset management related information as well as the statistical information required in the A, B and C schedules during the 2023/24 MTREF.

5.7 Eskom Bulk Tariff increases

The National Energy Regulator of South Africa (NERSA) is responsible for the price determination of the bulk costs of electricity. In the municipal financial year 2022/23, bulk electricity costs increased moderately at 9.61 per cent, compared to 17.8 per cent in the 2021/22 municipal financial year. Due to Eskom's funding needs, they are seeking higher tariff increases and have applied to NERSA for a 32 per cent hike from 1 April 2023/24. NERSA will make a final decision on the tariff application by 24 December.

In addition, a High Court hearing is still pending on the Multi-Year Price Determination (MYPD 5) application. The urgent High Court review requires NERSA to urgently process the Eskom revenue application for at least one year, as required by law. The timeframes for the review allow for a decision to be made in time for implementation by 1 April 2023.

5.8 Updated Municipal Borrowing Policy Framework

Cabinet approved the Update to the Policy Framework for Municipal Borrowing and Financial Emergencies on the 17th of August, 2022. The purpose of the Update is to re-examine the original Policy Framework, along with the legislation (i.e. Municipal Finance Management Act – MFMA) that was adopted to implement it, considering the experience with municipal borrowing that has accumulated since 2000.

The following key reforms have been introduced through the Update to the Policy Framework for Municipal Borrowing:

- The Policy Framework for Municipal Borrowing has been updated to introduce the necessary reforms that will expand the scope of responsible municipal borrowing and create an environment that attracts more players (e.g. insurers, pension funds, institutional investors and fund managers, and international Development Finance Institutions) in the municipal debt market space. The original core principles underlying municipal borrowing are maintained (i.e. creditworthy municipalities should borrow prudently to finance capital investment, and that there will be no bail-outs by the provincial or national government);
- The updated policy framework clarifies the role of Development Finance Institutions (DFIs), as it was not clearly articulated in the original policy. DFIs are required to pursue clear and agreed developmental goals, as outlined in the policy. The objective of this approach is to ensure that a DFI lending does not crowd out the private sector. Public-sector lenders, both domestic and foreign, should be guided by a social and developmental investment approach in which demonstrable social outcomes are considered alongside potential financial returns;
- The updated policy framework permits and clarifies innovative infrastructure financing mechanisms (such as pooled financing mechanisms, project finance, tax increment financing, revenue bonds, and pledging of conditional grants) that municipalities can use to leverage municipal borrowing. Municipalities are encouraged to explore these alternatives, and innovative infrastructure financing mechanisms permitted subject to the requirements contained in the Municipal Finance Management Act (MFMA) and
- The participation of both private and public sector market participants in the development of a liquid secondary market for municipal debt securities is also encouraged. The policy proposes options that can be explored to support the development and growth of an efficient and liquid market for municipal debt obligations.

The Updated Municipal Borrowing Policy Framework can be accessed at the MFMA website at the following link <http://mfma.treasury.gov.za/Guidelines/Pages/default.aspx>.

5.9 Tariff Policies

Municipalities must comply with the provisions of Section 74 of the Municipal Systems Act (MSA) which requires that a municipal council must adopt and implement tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements, and which complies with the provisions of this Act and with any other applicable legislation. Municipalities should also ensure that the tariff policies adhere to all the principles outlined in section 74(2) of the MSA. A municipality's tariff policies must also take into consideration variable factors such as water shortages and electricity feedback excess into the municipal system from new generation capacity. Municipalities must adopt by-laws to give effect to the implementation and enforcement of their tariff policies.

5.10 Non-Revenue Electricity and Non-Revenue Water/ Revenue Losses:

Water Service Authority municipalities and electricity licensed municipalities are urged to align both their non-revenue water and non-revenue electricity indicators and their set targets in the 2023/24 SDBIPs with identifiable infrastructure or operational projects and/ or programmes. Municipalities should improve on the baseline information included in the SDBIPs by indicating the volume of water losses (i.e., kilolitres/ mega-litres) and the amount of electricity losses (KwH or MWs) for the previous year. This approach will help to determine the progress of municipalities in curbing losses, which impact on municipal revenues, in both non-revenue water and non-revenue electricity.

6. Burial of Councillors

Salaries, allowances and benefits for political office-bearers and members is managed through Determination of Upper Limits of Salaries, Allowances and Benefits of Different Members of Municipal Councils notice issued by the Minister of Cooperative Governance and Traditional Affairs.

Section 167 of the MFMA provides that a municipality may remunerate its Councillors within the framework of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998), setting the upper limits of the salaries, allowances and benefits for those political office-bearers and members. Any benefit which is not included in the above-mentioned notice will be deemed irregular expenditure and recovery thereof from the Councillor concerned is mandatory.

Municipalities may also refer to relevant Councillor Pension Scheme or personal funeral policies in existence for any funeral benefits relating to such Councillor

7. Funding choices and management issues

Municipalities are under pressure to generate revenue. The ability of customers to pay for services is declining and this means that less revenue will be collected. Therefore, municipalities must consider the following when compiling their 2023/24 MTREF budgets:

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

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

7.1 Employee related costs

The Salary and Wage Collective Agreement for the period 01 July 2021 to 30 June 2024 dated 15 September 2021 through the agreement that was approved by the Bargaining Committee of the Central Council in terms of Clause 17.3 of the Constitution should be used when budgeting for employee related costs for the 2023/24 MTREF. In terms of the agreement, all employees covered by this agreement shall receive with effect from 01 July 2023 and 01 July 2024 an increase based on the projected average CPI percentages for 2023 and 2024. The forecasts of the Reserve Bank, in terms of the January 2023 and January 2024, shall be used to determine the projected average CPI. Municipalities are encouraged to perform an annual head count and payroll verification process by undertaking a once-a-year manual salary disbursement, in order to root out ghost employees.

According to the 2021 State of Local Government Finance Report, there are about 165 municipalities that are in financial distress. These municipalities need to ensure that they seek an early exemption from this dispensation of this salary agreement. Municipalities should also avoid paying out leave in cash while having major financial challenges.

7.2 Remuneration of Councillors

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

8. Transfers to municipalities

8.1 Criteria for the release of the Equitable Share

Section 216(2) of the Constitution of South Africa requires that the National Treasury must enforce compliance with the measures established to ensure both transparency and expenditure control in each sphere of government and may stop the transfer of funds to an organ of state if that organ of state commits a serious or persistent material breach of those measures.

The criteria for the release of the Equitable Share Instalments for the 2023/24 municipal financial year are as follows:

- The 2023/24 adopted budget must be funded and adopted by Council as per the legal framework, as required in terms of section 18 of the MFMA and consistent with the Budget Council and Budget Forum resolutions;
 - a. The adopted budget must include budget allocations for bulk suppliers current account payments;
 - b. Should the adopted budget still be unfunded, then a credible funding plan will be required to show how the municipality intends moving progressively out of this position into a funded state, if this plan has been adopted in the past, then a progress report must be submitted on the framework previously shared to guide municipalities which is aligned to the rescue phase of the new approach to Municipal Financial Recovery Service (MFRS);

- c. Those municipalities that adopted an unfunded budget must work with their respective Provincial Treasuries to rectify this position in the lead up to the main adjustments budget process in February 2023; and
- d. A council resolution showing commitment to address the unfunded position must be submitted by these municipalities to the National Treasury by 01 July 2023.
- Credible mSCOA data strings and source documents for the 2023/24 MTREF and 2022/23 audits must be generated directly from the core municipal financial system and successfully uploaded to the Local Government GoMuni Portal. Source documents must be submitted in PDF and no excel based spreadsheet/ templates will be accepted;
- The report submitted by bulk suppliers in terms of section 41 of the MFMA must indicate that the current account has been paid timeously in terms of section 65(2)(e) of the MFMA. In addition, where the municipality has a repayment plan with Eskom and/ or the water boards, proof that the current accounts have been paid and a copy of the agreed upon payment plan (or evidence of negotiations underway with creditors) must be submitted to the National and provincial treasuries;
- Municipalities must provide evidence that SARS, pension and other staff benefits deducted from municipal officials have been paid over the appropriate Funds and/ or institutions;
- The information requested in MFMA Circulars No. 93, 98 and 107 on the reconciliation of the valuation roll have been submitted to the National Treasury as per the required timeframes;
- The Competency Regulations reporting requirements have been complied with;
- Provide a copy of the Unauthorised, Irregular, Fruitless and Wasteful (UIF&W) expenditure register, the latest copy of the Municipal Public Accounts Committee (MPAC) recommendations, Council Resolution on UIFW as well as a copy of the council approved UIFW Reduction Strategy/ Plan, proof of establishment of the Disciplinary Board (or evidence of progress towards their establishment) including evidentiary evidence demonstrating functionality of the Disciplinary Board and updated audit action plan (where the audit has been completed);
- Those municipalities that received an adverse or disclaimed opinions for the 2020/21 financial year will not receive their funding allocation unless there is a council resolution committing to address these opinions with an implementable plan. The resolution must be signed by each member of the Council and submitted to National Treasury by 1 October 2023;
- The Municipal Financial Recovery Service progress reporting framework for financial recovery plans must be complied with by municipalities under intervention in terms of S139 of the Constitution;
- Additionally, those municipalities that have outstanding audits for both the 2020/21 and 2021/22 financial years as well as municipalities with outstanding 2021/22 audit opinions that also received an adverse or disclaimer opinion in 2020/21, will also not receive their allocation; and
- Any other outstanding documents as per the legal framework have been submitted including the AFS submission (municipality only and consolidated AFS).

Failure to comply with the above criteria will result in National Treasury invoking section 38 of the MFMA which empowers National Treasury to withhold a municipality's equitable share if the municipality commits a serious or persistent breach of the measures established in terms of Section 216(2) of the Constitution which includes reporting obligations set out in the MFMA and National Treasury requests for information in terms of Section 74 of the MFMA.

9. The Municipal Budget and Reporting Regulations

9.1 Schedule A – version to be used for the 2023/24 MTREF

National Treasury has released Version 6.7 of the Schedule A1 (the Excel Formats) which is aligned to Version 6.7 of the *mSCOA* classification framework and must be used when compiling the 2023/24 MTREF budget.

All municipalities must prepare their 2023/24 MTREF budgets in their financial systems and produce the Schedule A1 directly from their financial system.

Municipalities must start early enough to capture their tabled budget (and later the adopted budget) in the budget module in the financial system and must ensure that they produce their Schedule A1 directly out of the budget module. **Manual capturing on the A1 schedule version 6.7 is not allowed** in terms of the *mSCOA* Regulations.

National Treasury has protected the A1 schedule version 6.7 in order to ensure that the Schedule A1 generated directly from the financial system and not populated manually.

The budget, adjustments budget and Section 71 monthly reporting Schedules that have been regulated in terms of the MBRR have also been aligned to the *mSCOA* chart version 6.7. The revised MBRR Schedules for the 2023/24 MTREF and its linkages to the financial and non-financial data string are available on the link below:

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

9.2 Assistance with the compilation of budgets

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

Province	Responsible NT officials	Tel. No.	Email
Eastern Cape	Matjatji Mashoeshoe Pitso Zwane Oreal Tshidino	012-315 5553 012-315 5171	Matjatji.Mashoeshoe@treasury.gov.za Pitso.Zwane@Treasury.gov.za Ophulusa.Tshidino@Treasury.gov.za
Buffalo City	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
Free State	Sifiso Mabaso Cethekile Moshane	012-315 5952 012-315 5079	Sifiso.mabaso@treasury.gov.za Cethekile.moshane@treasury.gov.za
Gauteng	Matjatji Mashoeshoe Abigail Maila Willem Voigt	012-315 5553 012-395 6737 012-315 5830	Matjatji.Mashoeshoe@treasury.gov.za Abigail.Maila@Treasury.gov.za WillemCordes.Voigt@treasury.gov.za
City of Tshwane and City of Johannesburg Ekurhuleni	Makgabo Mabotja Kgomotso Baloyi	012-315 5156 012-315 5866	Makgabo.Mabotja@treasury.gov.za Kgomotso.Baloyi@treasury.gov.za
KwaZulu-Natal	Kgomotso Baloyi Kevin Bell	012-315 5866 012-315 5725	Kgomotso.Baloyi@treasury.gov.za Kevin.Bell@treasury.gov.za
eThekweni	Sifiso Mabaso	012-315 5952	Sifiso.mabaso@treasury.gov.za
Limpopo	Sifiso Mabaso	012-315 5952	Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Mandla Gilimani Lesego Leqasa	012-315 5807	Mandla.Gilimani@treasury.gov.za Lesego.Leqasa@treasury.gov.za

Northern Cape	Mandla Gilimani Sibusisiwe Mchani	012-315 5807 012-315 5539	Mandla.Gilimani@treasury.gov.za Sibusisiwe.Mchani@treasury.gov.za
North West	Willem Voigt Makgabo Mabotja	012-315 5830 012-315 5156	WillemCordes.Voigt@treasury.gov.za Makgabo.Mabotja@treasury.gov.za
Western Cape	Willem Voigt Enock Ndlovu	012-315 5830 012-315 5385	WillemCordes.Voigt@treasury.gov.za Enock.Ndlovu@treasury.gov.za
Cape Town	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
George	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
Technical issues with Excel formats	Sephiri Tlhomeli	012-406 9064	lgdataqueries@treasury.gov.za

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

9.3 Assessing the 2023/24 MTREF budget

National and provincial treasuries will assess the 2023/24 MTREF budgets to determine if it is complete, funded and complies with the *m*SCOA requirements. The *m*SCOA data strings for the tabled (TABB) and adopted (ORGB) budgets will be used for this assessment.

Municipalities should note that the MFMA legislated timeframes for submission of the tabled and adopted budgets are outer timeframes. In this context, different to previous MTREF's, going forward, if the municipality's budget is unfunded, council in terms of MFMA section 74 is requested to table and/ or adopt a budget funding plan together with the budget at the same time.

The Treasuries' **assessment period** of municipal budgets will be from **01 April to 30 June 2023 for both the tabled and adopted budgets**. However, (in a context of some municipalities persisting with unfunded budgeting practices), **if the municipality tabled and/ or adopted an unfunded budget in the 2022/23 MTREF**, the municipality must adjust its schedule of key budget deadlines to facilitate an earlier Treasuries' assessment thereof between 1 April to 15 May 2023 for both tabled and adopted budgets. In this period the national and provincial treasuries will evaluate all municipal budgets for completeness and for being fully funded. Any adjustment that needs to be made must be done before the start of the municipal financial year on 30 June 2023.

Importantly, in order to generate an adopted budget (ORGB) data string, the budget must be locked immediately on the financial system at the start of the new municipal financial year on 1 July. Therefore, once the ORGB data string has been generated, errors in the ORGB can only be corrected via an adjustments budget in February of each year. In terms of the design principles of *m*SCOA, municipalities are not allowed to open the budget on the system for corrections after it has been locked. This means that the tabled budget data string (TABB) should in fact be verified and errors in the TABB should be corrected in the ORGB **before the adopted budget is locked on the financial system and the ORGB data string is generated**.

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

The National Treasury would like to emphasise that ***where municipalities have adopted an unfunded budget together with a funding plan that lacks credibility, they will be required to correct the funding plan and ensure that it is credible. The credible funding plan must be immediately adopted by the Municipal Council, and the changes to the***

budget must be effected in the mid-year adjustments budget to ensure compliance with Section 18 of the MFMA.

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

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

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

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

10. Submitting budget documentation and A1 schedules for 2023/24 MTREF

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

- Section 22(b)(i) of the MFMA requires that, ***immediately*** after an annual budget is tabled in a municipal council, it must be submitted to the National Treasury and the relevant provincial treasury in electronic formats. If the annual budget is tabled to council on **31 March 2023**, the final date of submission of the electronic budget documents and corresponding mSCOA data strings is **Monday, 03 April 2023**; and
- Section 24(3) of the MFMA, read together with regulation 20(1) of the MBRR, requires that the approved annual budget must be submitted to both National Treasury and the relevant provincial treasury within ten working days after the council has approved the annual budget. However, given that municipalities are generating the annual budgets directly from the financial system as required by the mSCOA Regulations and that the budgets must be verified before it is locked on the financial system and transacted against, municipalities must submit the approved budget to the National Treasury and the relevant provincial treasury in electronic formats ***immediately*** after approval by the municipal council. Therefore, if the annual budget is tabled to council on **31 May 2023**, the final date of submission of the electronic budget documents and corresponding mSCOA data strings is **Thursday, 01 June 2023**.

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

10.1 Expected submissions for 2023/24 MTREF

The following information should be submitted for the 2023/24 MTREF:

- The budget documentation as set out in the MBRR. The budget document must include the main A1 Schedule Tables (A1 - A10);
- The non-financial supporting tables (A10, SA9, SA11, SA12, SA13, SA22, SA23, SA24 etc. and any other information not contained in the financial data string) in the A1 schedule must be submitted in the prescribed *mSCOA* data string in the format published with Version 6.7 of the A1 schedule;
- The draft and final service delivery and budget implementation plan (SDBIP) in electronic PDF format;
- The draft and final IDP;
- The council resolution for the tabled and adopted budgets;
- Signed Quality Certificate as prescribed in the MBRR for the tabled and adopted budgets;
- D Schedules specific for the entities;
- A budget locking certificate immediately at the start of the new municipal financial year on 1 July;
- The National or Provincial treasury input to the tabled budget must be included as an Annexure to the adopted budget together with the municipality's explanation of how such was addressed in the adopted budget. If not, the explanation should provide reasons; and
- The bulk water-and electricity invoices for the 3 months immediately preceding respectively the tabled and adopted budgets, must be included as an annexure to the tabled and adopted budgets as part of supporting the municipalities provision for and calculations of payments to bulk suppliers over the 2023/24 MTREF.

10.2 Portals for the submission of information

Municipalities must ensure that the documents are submitted to the correct portals/ mailboxes. These portals/ mailboxes are:

https://lg.treasury.gov.za/ibi_apps/signin (GoMuni Upload Portal) – All documents required in terms of legislation, including:

- *mSCOA* Data Strings by approved registered users;
- Budget-related and in-year documents and schedules (A, B and C) by approved registered users; and
- Reconciliation of the valuation roll to the financial system (as per MFMA Circular No. 93).

Budget related documents and schedules must be uploaded by approved registered users using the GoMuni Upload Portal at: https://lg.treasury.gov.za/ibi_apps/signin. The GoMuni Upload Portal does not have the same size restrictions encountered with lgdocuments@treasury.gov.za, but requires all documents to:

- Be in PDF format only; and
- 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 may **only** send electronic versions of the above documents to lgdocuments@treasury.gov.za when experiencing problems with the GoMuni Upload Portal.

lgdataqueries@treasury.gov.za – Database related and submission queries and the grant rollover templates.

lgdocuments@treasury.gov.za – Any additional information required by National Treasury that is not listed under the GoMuni Upload portal such as the documents meeting the criteria to release Equitable Share and the contact list information.

FMCM and Audit Action plans – using the web-enabled systems and as articulated in MFMA Circulars No. 113 and 114.

Please do not submit the same document to ALL the platforms listed above as it means that our Database Team must register the same documents three times which slows down the process. **Any document/ queries that are submitted to the incorrect portal/ mailbox will be deleted and not processed.**

10.3 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.

10.4 Communication by municipal entities to National Treasury

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

Contact



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Post Private Bag X115, Pretoria 0001

Phone 012 315 5009

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JH Hattingh

Chief Director: Local Government Budget Analysis

09 December 2022

Virtual mSCOA Training Programme 2023

Month	TOPIC
Jan	Getting a green submission • Overview of mSCOA chart structure • Submission deadlines • Uploading to the GoMuni Upload portal • Correction of validation errors • Using GoMuni to verify receipt and credibility of submission
Feb	Preparing the Budget in mSCOA (1) • Preparing the project file (PROR) • Projects Typical Workstreams • Budgeting for disaster/special projects • Infrastructure Management and asset life cycle • The funding matrix ◦ Allocation of correct funding sources and alignment to the correct segments ◦ Funding capital expenditure
March	Preparing the Budget in mSCOA (2) • Opening balances & Balance sheet budgeting • Budgeting for cash flow • Budgeting for conditional grants
April	Common Errors in 2023/24 Tabled Budget Data Strings (to be corrected in adopted budget (ORGB submission)) • Water Inventory
May	Common Budgeting Errors • Operating Expenditure – Deprecation • Bad debts written off • Impairment loss for consumer debtors • Travel and Subsistence
June	Last change to get the ORGB right • Functional allocation • Use of Regional segment • Alignment of A1 schedules
July	Common Transacting and Reporting Errors • Opening balances • Populating the cash flow • Reporting on conditional grants • Transacting without budget
Aug	Preparing the pre-audit AFS Data Strings (PAUD)
Sept	Common Transacting and Reporting Errors
Oct	Preparing the AFS Data Strings (AUDA)
Nov	Chart changes for version 6.8
Dec	Preparing for the Adjustment Budget



Municipal Budget Circular for the 2023/24 MTREF

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Introduction

This budget circular is a follow-up to MFMA Circular No. 122 that was issued on 09 December 2022. It aims to provide further guidance to municipalities with the preparation of their 2023/24 Medium Term Revenue and Expenditure Framework (MTREF) budgets and should be read together with the budget circulars that have been issued previously.

The grant allocations as per the 2023 Budget Review and the 2023 Division of Revenue Bill are also key focus areas in this circular. Municipalities are reminded to refer to the annual budget circulars of the previous years for guidance in areas of the budget preparation that is not covered in this circular.

1. The South African economy and inflation targets

GDP is expected to grow by 0.9 per cent in real terms in 2023, compared with an estimate of 1.4 per cent at the time of the medium-term budget policy statement (MTBPS), recovering slowly to 1.8 per cent in 2025.

The economic outlook faces a range of risks, including weaker-than-expected global growth, further disruptions to global supply chains and renewed inflationary pressures from the war in Ukraine, continued power cuts and a deterioration in port and rail infrastructure, widespread criminal activity, and any deterioration of the fiscal outlook.

Government is taking urgent measures to reduce load-shedding in the short term and transform the sector through market reforms to achieve long-term energy security. Several reforms are under way to improve the performance of the transport sector, specifically freight rail and to improve the capability of the state.

The following macro-economic forecasts must be considered when preparing the 2023/24 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections, 2021 - 2026

Fiscal year	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Forecast		
CPI Inflation	4.9%	6.9%	5.3%	4.9%	4.7%

Source: Budget Review 2023.

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

2. Key focus areas for the 2023/24 budget process

2.1 Local government conditional and unconditional grants allocations

Over the 2023 MTEF period, local government allocations will increase by a total of R14.3 billion, made up of R8.1 billion in the local government equitable share and R6.2 billion in direct conditional grants. This takes the total direct allocation to R521.7 billion over the same period. These allocations alleviate some of the financial pressures, particularly in basic services, where the costs of providing services are rising.

The *local government equitable share* and related allocations increases at an annual average rate of 7.8 per cent and municipal conditional grants increase by 3.5 per cent over the 2023 MTEF period.

The *local government equitable share* formula has been updated to account for projected household growth, inflation and estimated increases in bulk water and electricity costs over the 2023 MTEF period. It also includes allocations for the operational and maintenance costs associated with the provision of free basic services.

The 2023 Budget has ensured that sufficient provision has been made to ensure that all municipalities are fully subsidised to support indigent households. Following this, R1.35 billion has been left unallocated in the LGES formula for 2023/24 to serve as a precautionary measure should municipal electricity tariffs exceed the 20.7 per cent provided for in the formula (see section 5.7 on why this is above the 18.7 per cent approved by the Energy Regulator). If the actual increase in municipal bulk tariffs exceeds the provision made in the formula, it will be the first call on those unallocated funds. We will consider funding broader cost relief measures for municipalities if funds remain available after that.

The R6.2 billion in direct conditional grants is funded from the Budget Facility for Infrastructure (BFI) and is broken down as follows:

- **R2.2 billion** added to the Urban Settlements Development Grant to fund the implementation of projects in the eThekweni Metropolitan Municipality and the City of Johannesburg;
- **R461 million** added to the Public Transport Network Grant to align funding with the revised implementation plan and cash flow projections for the City of Cape Town's MyCiTi public transport network project; and
- **R3.4 billion** added to the Regional Bulk Infrastructure Grant to fund 3 water projects in Sol Plaatje Local Municipality, Drakenstein Local Municipality and Nelson Mandela Bay Metropolitan Municipality.

Notable changes to the conditional grants system

Housing emergency grants

Changes to conditional grants in the 2023 Budget include the discontinuation of the conditional emergency housing grants for provinces and municipalities. The baselines of these two grants are shifted to the Department of Human Settlements. This will allow the department to respond quickly in the event of an emergency housing need.

Changes to the INEP conditional grant frameworks

As part of government's efforts to accelerate access to electricity thereby addressing the energy crisis, Eskom and municipal INEP grants will begin funding alternative energy technologies such as rooftop solar and energy-saving devices. Due process must be followed to access funding for these new technologies. As a result, both Eskom and municipalities will need to conform to the set requirements by submitting business plans by 31 October 2023. These business plans, will need to be approved by the Department of Mineral Resources and Energy (DMRE) before they can be implemented. Priority should be given to new connections, i.e., non-grid technology should be targeted at households that do not have access to electricity.

The annual Division of Revenue Bill was published on 22 February 2023. The Bill specifies the grant allocations and municipalities must reconcile their budgets to the numbers published therein in compiling their 2023/24 MTREF.

The Division of Revenue Bill, 2023, which includes the annexures outlining allocations to each municipality is available at:

<http://www.treasury.gov.za/documents/national%20budget/2023/default.aspx>

2.2 Re-enforcing improved intergovernmental relations in the 2023 Division of Revenue Bill, (DoRB)

In order to strengthen the system of good intergovernmental relations as envisaged in the Chapter 3 of the Constitution and subsequent related legislation, municipalities are reminded of Section 31(3) of DoRA that provides for the facilitation of personal liability for unnecessary litigation. As required by subsection (1)(a) of this clause, read together with section 41(3) of the Constitution, a municipality may only institute litigation against any organ of state, state-owned enterprise, public- and/ or municipal entity after exhausting all dispute resolution mechanisms required and/ or available to the municipality in terms of existing intergovernmental relations processes, policy and/ or any related contract with the municipality, including in terms of the Municipal Finance Management Act, 2003, the Intergovernmental Relations Framework Act, 2005, and/ or the Electricity Regulation Act, 2006 (dispute processes administered by National Energy Regulator of South Africa (NERSA)).

Section 31 is amended to include a clause that requires that where an organ of state decides to institute judicial proceedings against another organ of state, it must, within 10 working days of its decision, notify the National Treasury, the relevant provincial treasury, the Department of Cooperative Governance and the Auditor-General, of the details of compliance with Chapter 4 of the Intergovernmental Relations Framework Act, 2005, including an explanation of the failure to resolve the dispute.

2.3 Conditional grants usage

Conditional grant funds may only be used for the purposes, and subject to the conditions specified in the framework for each conditional grant. These conditions are binding in terms of sections 11 and 12 of the annual Division of Revenue Act. Any instruction by a municipal, provincial, or national official or politician that is inconsistent with the framework of a conditional grant is invalid. Municipalities are reminded that in terms of section 32 of DoRA, spending of a grant that is inconsistent with DoRA is considered irregular or unauthorised expenditure.

3. Pension and medical aid fund defaults

There has been a growing trend where municipalities are deducting pension and/ or medical aid contributions from officials but are not paying it over to their pension- and/ or medical aid fund. This is inconsistent with the intent and spirit of the MFMA and constitutes an act of financial misconduct in terms of section 171 of the MFMA read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014 and also a financial offence in terms of section 173 of the MFMA read together with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings. Municipal Councils should refer these actions to the Disciplinary Boards for further investigation and should also lay criminal charges against the accounting officer or any other responsible or delegated official who has failed to perform the responsibility outlined in terms of section 65(2)(f) of the MFMA which states that “the accounting officer of a municipality must take all reasonable steps to ensure that the municipality complies with its tax, levy, duty, pension, medical aid, audit fees and other statutory commitments”. Municipal Councils should also consider further measures and actions in terms of the Pension Funds Act, as may be applicable.

4. Municipal Standard Chart of Accounts (mSCOA)

4.1 Version 6.7 of the *m*SCOA Chart Go Live

Version 6.7 of the *m*SCOA chart will go live on 13 March 2023, whereafter tabled budget data strings can be uploaded on the GoMuni portal.

For new *m*SCOA chart changes to be considered for version 6.8 of the chart, a Frequently Asked Questions (FAQ) must be logged by 31 August 2023 on the *m*SCOA FAQ database on GoMuni. FAQ queries can be logged at:

https://lq.treasury.gov.za/ibi_apps/portal/mSCOA_FAQ

It is important that the issue logged is described clearly and that sufficient supporting evidence is provided to ensure that all aspects of the issue are considered. After investigating the query logged, the following actions will be taken:

- If the query does not require a chart change, the FAQ will be closed, and feedback will be provided to the logger.
- If the query warrants a chart change, it will be submitted for consideration and approval by the relevant committees within the National Treasury.

Chart changes are communicated in October of each year to allow sufficient time for municipalities and vendors to effect such changes. Chart changes are officially published in the MFMA Budget Circular in December of each year.

4.2 Additional requirements to change municipal financial systems

The cost and risk associated with procuring and implementing a new Enterprise Resource Planning (ERP) financial system necessitate careful consideration and extensive planning to ensure a smooth operational transition. Such a transition takes at least 18 months to conclude and does not come without challenges and disruptions in operations.

The National Treasury will regulate the minimum business processes and system specifications for *m*SCOA by the end of 2024/25. A new transversal tender for the provision of ERP financial systems that complies with these regulations will be put in place once the regulations have been issued. Municipalities should therefore exercise extreme caution when changing their financial systems at this stage to eliminate fruitless and wasteful expenditure by procuring financial systems that might not comply with the said regulations.

Municipalities are reminded to follow the due diligence processes set out in MFMA Budget Circulars No. 93, 98 and *m*SCOA Circulars No 5 and 6 prior to procuring new financial systems to protect them from making incorrect decisions in this regard.

In addition, and **with immediate effect**, municipalities must inform the National and relevant Provincial Treasury of any intention to replace the financial system currently operating at the municipality prior to inviting proposals from system providers. This is a requirement in terms of section 74 of the MFMA. The submission should include:

- A comprehensive motivation with specific reasons for why it is deemed necessary to replace the existing financial system;
- A copy of the service level agreement with minutes of the meetings between the municipality and the current service provider (financial system vendor) during the previous twelve months;
- An assessment to determine which modules of the existing financial system are being utilised by the municipality. Reasons must be provided for modules not in operation. Details and reasons must be provided on the use of third-party systems to provide functionality required in terms of MFMA Circular No. 80;

- An assessment to detail the proficiency of municipal users to utilise the current financial system properly. Reasons must be provided if users are not proficient in the use of the system and the details must be provided on how the system is being operated and transactions are being captured on the system in such cases;
- The date on which the existing financial system was implemented, the procurement and implementation costs and the current operational costs thereof must be disclosed;
- The organisational structure, specifically for the IT department/ function, clearly indicating management capacity and responsibility for operating the financial system;
- A technical assessment should be submitted indicating how the existing ICT infrastructure, server and network comply with the requirements of the current financial system; and
- Copies of all IT strategies, policies and procedural documents including the IT disaster recovery plan must be made available.

The above submissions and all enquiries must be forwarded to lgdocuments@treasury.gov.za. A working committee comprising representatives from the National and Provincial Treasuries, the Office of the Auditor-General and other relevant stakeholders will assess the submissions and respond with its findings. These findings must be tabled in Council and a council resolution must be submitted to lgdocuments@treasury.gov.za within 14 working days after the Council meeting has taken place.

It must be emphasized that the combination of both credible data inputs and an effective financial system is fundamental to ensure the quality and timeliness of financial reporting. If the data input into the financial system is incorrect then any management information generated by the system will lack credibility and reliability for decision making. Furthermore, a municipality with poorly designed business processes will not resolve the problem by implementing a new financial system. Processes must firstly be redesigned with the necessary data validation rules if the municipality is to improve its data integrity. This foundation is integral to ensuring that software applications generate credible information and can be used effectively by municipalities.

5. The revenue budget

Similar to the rest of government, municipalities face a difficult fiscal environment. The weak economic growth has put pressure on consumers' ability to pay for services, while transfers from national government are growing more slowly than in the past. Some municipalities have managed these challenges well, but others have fallen into financial distress and face liquidity problems. These include municipalities that are unable to meet their payment obligations to Eskom, Water Boards and other creditors. There is a need for municipalities to focus on collecting revenues owed to them and eliminate wasteful and non-core spending. It is important to note that the municipal equitable share as a policy instrument is meant to subsidise services to the poorest of the poor and not to pay municipal creditors. This bad practice by municipalities will have to be addressed as a matter of urgency. Municipal creditors should be advised that municipalities cannot use funds allocated for basic service provision to pay creditors.

Municipalities must ensure that they render basic services, maintain their assets and a clean environment. Furthermore, there must be continuous communication with the community and other stakeholders to strengthen awareness and participation and to improve the municipality's reputation. This will assist in attracting investment in the local economy which may result in increased employment.

Some municipalities are experiencing serious liquidity challenges. Therefore, the new leadership is advised to:

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

5.1 Maximising the revenue generation of the municipal revenue base

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

The purpose of the above mentioned MFMA Circulars is to ensure that the municipalities are using their entire revenue base as the basis for the revenue budget. It is essential that municipalities reconcile their most recent consolidated valuation roll data to that of the current billing system data to ensure that revenue anticipated from property rates is realistic. The municipalities should implement a data management strategy and develop internal capacity to perform these reconciliations and investigations to improve completeness of billing.

One of the aims of the reconciliation process is to identify exceptions, i.e. records on the general valuation roll that are not on the billing system and records on the billing system and vice versa. In addition, the reconciliation must identify duplicated records, missing data, and data errors. These exceptions should then be investigated, and remedial action strategies developed for data cleansing and other corrective actions. The Debtors Ageing data should also form part of the reconciliation process so that “debtors” can be tracked and assessed at a property record level and prioritised for verification of rates liability measured against a MPRA property and owner.

To facilitate reconciliation of the separate databases (General Valuation Roll and Billing), a unique property identifier (common primary unique link code) must be created and populated for each rateable property on the general valuation roll system and on the rates billing system. This property identifier must be unique, without duplicates, and must remain constant for the life of the property. The standards adopted by the South African Council for the Property Valuers Profession (SACPVP), namely South African Standard: Municipal Valuations for Property Rating, specifies that the Surveyor General Code SG 21-digit Code, derived, and created from the property description, be applied for all registered full title properties defined in terms of part (a) of the definition of property.

For all other MPRA defined property, Part (a) Sectional Title, Part (b) Registered Rights, Part (c) Land Tenure Rights and Part (d) PSI and, apportioned multiple use property in terms of sections 8(2)(i) and 9(2), an added suffixed 5 digits to the SG 21-digit code must be assigned by the designated municipal valuer, thereby creating a unique 26-digit code. The municipality must ensure that the SG21 digit code and 26-digit coding system is applied in their valuation roll management system and billing system and engage with their designated municipal valuer and systems service providers to implement the unique property identifier.

Further it is important that municipalities who are performing a general valuation (GV) to implement a new valuation roll on 1 July 2023, must also as best practice compare the current consolidated roll to the new valuation roll. This will identify any anomalies and errors of category of property and market values for review and investigation and the option of lodging an objection by the municipality, where applicable. This process should also identify outliers and shifts in market values by category and area so that tariffs on the new roll can be modelled and determined in an equitable manner to avoid rates shocks.

Municipalities should undertake this exercise as a routine practice during the budget process so that supplementary adjustments to the valuation roll are kept up to date. In order to ensure that the most updated information is used for the reconciliations, municipalities are reminded to adhere and comply with Section 23(1)(2) of the MPRA and therefore use the Part A register as the basis for performing the reconciliations going forward.

Furthermore, municipalities are also advised and expected to comply with Section 8(1) of the MPRA in terms of the billing methodology that should to be specified within their policies to ensure that the correct categories (based on the selection made by the municipality) are used in the reconciliation process.

The list of exceptions derived from this reconciliation will indicate where the municipality may be compromising its revenue generation in respect of property rates or whether the municipality is overstating its revenue budget.

A further test would be to reconcile this information with the Deeds Office registry. In accordance with the MFMA Circular No. 93, municipalities are once more requested to submit their reconciliation of the Valuation roll/ Part A register to the billing system to the National Treasury on a quarterly basis by no later than the 10th working day after the end of the quarter. A detailed action plan must accompany the reconciliation where variances are noted.

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

Municipalities are reminded of the need to clearly communicate the GV appeals and objection process to residents to ensure that any disputes are timeously resolved.

Revenue Collection – No operation can be sustainable if it does not collect its revenue. A municipality is no different. There is a misconception that a municipality may not interrupt or restrict the supply of water services of a defaulting consumer. The National Treasury confirms that neither the Water Services Act, 1997 (Act No. 108 of 1997) or any other legislation prevents a municipality from cutting the supply of water to a defaulting consumer unless the consumer is an indigent in which case the water services to that household must be restricted to the national free basic water limit of 6 kilolitre water monthly (or 50 kilowatt hours in the case of free basic electricity monthly). This was confirmed by the Constitutional Court in the matter of Mazibuko and Others v City of Johannesburg and Others (CCT 39/09) [2009] ZACC 28; 2010 (3) BCLR 239 (CC); 2010 (4) SA 1 (CC) (8 October 2009).

Municipalities are urged to use the restriction/ interruption of supply of both water and electricity services as a collection tool. Effective from the tabling and adoption of the 2023/24 MTREF, municipalities' By-laws and policies must facilitate this and clearly stipulate the order in which any partial payment of the consolidated municipal bill (including property rates) will be applied as well as the process before the supply of water and electricity services will be cut. The National Treasury recommended that any partial payment firstly be applied to property rates, wastewater, waste management, water and lastly to electricity. When interrupting or restricting the supply of water it is important that such is undertaken together with the municipal engineer(s) to ensure a continued minimum supply of waste-water.

Municipalities should develop a Wheeling Framework to allow for the transmission of energy across their networks. These wheeling frameworks provide an opportunity for municipalities to generate revenue from their distribution networks. Provincial Treasuries or National Treasury can be approached for support to develop these frameworks.

5.2 Funding Depreciation

The information shared in Circular 115 regarding the funding of the depreciation refers. It is important to note that depreciation represents the cost of using assets in service delivery and forms part of the total cost of providing the municipal service. Accordingly, it should be included in the setting of cost reflective tariffs to recover the full cost of rendering the service, failing which the depreciation will not be cash backed on Table A7 and will remain a journal entry with no value as mentioned in MFMA Circular No. 115.

5.3 Tariff-setting – the impact of loadshedding

Loadshedding not only affects the electricity service but also some municipalities' ability to pump water, thereby negatively impacting the stability of water supplies and the related functioning of the wastewater reticulation network. The loadshedding crisis has been declared a state of disaster and will require tough budgeting choices for municipalities to make sure that basic municipal services are sustained. The regulations published in the Government Gazette No. 48152 on 27 February 2023 in terms of the Disaster Management Act, 2002 (Act 57 of 2002) require municipalities to "ensure continuous operation of water infrastructure and other specified essential infrastructure, including by installing alternative energy sources or other measures to provide an uninterrupted power supply." Municipalities are also required to "mobilise available resources" and "provide funds for this purpose, subject to affordability." As an immediate interim solution back-up electricity to pump water should be prioritised while being mindful of its affordability within the municipality's available funding sources and other critical priorities. The municipality need to adequately plan and prioritise funding in its 2023/24 MTREF for this purpose, including:

- When planning to pump water/ maintain the wastewater service by way of any alternative solution(s), it is important that the municipality properly plan and budget for the associated capital and operational costs to operate and maintain the solution(s) over the 2023/24 MTREF and longer-term;
- Any additional cost the municipality already incurred in this regard during the period of elevated loadshedding since December 2022 should be projected to continue in 2023/24 i.e. diesel to operate a generator;
- Although a state of emergency has been declared to deal with the continual loadshedding challenges in the country, it is likely that loadshedding will continue during the 2023/24 municipal financial year. It is proposed that municipalities factor in the impact of loadshedding on their electricity revenue projections, taking into account current experience in terms of loadshedding practices by Eskom;
- The additional costs of prolonged loadshedding should be considered;
- Municipalities are always asked to try to balance full cost recovery on services with affordability for their residents. In practice, this means that where the full increase in the cost of a service is not passed on to consumers, municipalities must offset the increased costs through savings identified elsewhere in their operations. Therefore, **reducing/ limiting overall expenditure** is a key part of budgeting for the response to loadshedding. The municipality should stick to its core mandate and functions and carefully review overall expenditure to manage the net effect. Measures should include aggressively cutting costs, frills, and vanity projects, dealing with bloated administrations and structures possibly duplicated across Municipal Manager and Mayoral offices, and applying for exemptions from the annual salary increases if these are not affordable;
- While municipalities are urged to maximise efficiency in their operations, tariff setting efforts should consider the need to make additional provision for repairs and maintenance associated with infrastructure breakdowns during loadshedding;
- **Reducing/ limiting overall expenditure** – the municipality should stick to its core mandate and functions – it is necessary to carefully look at the overall expenditure side to manage the net effect, including aggressively cutting costs, fancy, frills, vanity

- projects, deal with bloated admin- and structures possibly duplicated across Municipal Manager and Mayoral offices, and apply for exemptions from the annual salary increases; and
- The cost should be considered and included when setting the tariffs of the service(s) to which it relates.

Municipalities should also budget for reduced bulk purchases and sales to municipal customers based on the same loadshedding assumptions cited above.

Municipalities should carefully monitor their Eskom accounts for any penalties that result from increased demand immediately after a period of loadshedding is ended. Eskom has indicated that they will reverse any penalties for exceeding notified maximum demand that results from the implementation of loadshedding. This should be factored into the tariff calculation to ensure that consumers are not overcharged.

Lastly, it is important to note that a municipality may only introduce a load-shedding levy or surcharge with the approval of the Minister of Finance and in terms of the legislated processes set-out in the MFMA and Municipal Fiscal Powers and Functions Act, 2007.

5.4 Setting cost-reflective tariffs

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

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

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

The National Treasury issued a tariff setting tool and guide as part of MFMA Budget Circular No. 98 (refer item 4.2) on 6 December 2019 and since 2019, has encouraged municipalities to utilise the tool. **With effect, from the 2023/24 MTREF, all municipalities (except metropolitan cities and district municipalities that do not provide any services) as part of both the tabled and adopted MTREF submissions must submit the completed National Treasury tariff tool (in excel format)** illustrating that the revenue component of the budget is credible and funded and that the municipality's tariffs are cost reflective. If the municipality's initial calculation results in high increases to facilitate cost-reflectiveness, it is recommended that such are phased in over 3 to 5 years. The municipality's strategy in this regard should be included as part of the budget narratives.

This tool will assist in setting tariffs that are cost-reflective and enable a municipality to recover costs to fulfil its mandate. Going forward it is also imperative that every municipality fully embrace the Municipal Standard Chart of Accounts (*mSCOA*): costing component. Considering, *mSCOA* implementation is entering its sixth year of implementation, all municipalities must fully embrace and report also utilising the costing segment correctly. The National Treasury Municipal Costing Guide is available on the link below on the National Treasury website.

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

5.5 Tariffs – achieving a balance between cost-reflectiveness and affordability

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other consumers while ensuring the financial sustainability of the municipality.

When setting tariffs, it is therefore critical to understand the economic environment specific to the municipality and consideration should include at least –

- *The socio-economic profile undertaken for the municipality* available on the National Treasury GoMuni portal – municipalities are encouraged to annually update their own socio-economic profile using the template model available on GoMuni;
- *The most recent average monthly household income in the municipality* as per Statistics South Africa (Stats SA) available on [Statistics South Africa | Improving Lives Through Data Ecosystems \(statssa.gov.za\)](https://www.statssa.gov.za);
- *The average property value in the municipality* per its most recent approved general valuation roll and/ or supplementary general valuation roll;
- *The number of indigent households in the municipality*, including any variation in the number of indigent households included in the Equitable Share: free basic services component for the municipality vs the municipality's own indigency level discretion; and
- *The economic drivers and activities specific to the municipal area¹; etc.*

The municipality's tariff-setting or other committee tasked with this role must understand and deliberately reflect on this context during the tariff-setting process. Considering the average monthly household income, the median affordable municipal bill would ideally not exceed proportionally approximately 10 to 15 per cent the average monthly household income. This median affordable bill, in combination with the median average property value should inform the basis to determine any rebates to households with income below the median. Furthermore, municipalities contemplating to increase free basic electricity allocations as an indigent relief measure, should do so only after careful consideration of the long-term financial impact that such a decision might have.

It is also important when setting particularly water and electricity tariffs that municipalities are encouraged to set two-tier tariffs, that include a basic availability charge to recover the fixed (direct and indirect) cost associated with the service in conjunction with consumption-based tariff bands. For example, in a drought, such tariffs will facilitate the ability to pay for infrastructure and maintenance, treating chemicals and salaries, etc. while parallel facilitating water restriction based on inclining tariffs as consumption increase. Furthermore, it is important to link the municipality's water tariffs to dam levels, also approved as part of the budget process. For example, if the dam levels drop to 60 per cent the first tier of restriction tariffs should become applicable in terms of the municipality's approved tariff policy.

It is also noted that NERSA approves seasonal tariffs for Eskom but not necessarily for the municipality. It is important that the municipality clearly factors this in its tariff application to NERSA, illustrating the cash flow crunch if the municipality is not similarly allowed a seasonal tariff to recover the higher Eskom bulk cost during winter months.

Lastly, municipalities are cautioned against setting tariffs that include operating inefficiencies. This could lead to tariffs falling into the unaffordable range.

¹ The spatialised tax data is now available through National Treasury for all municipalities that provides an up to date information on economic activity within a municipal boundary.

The Consumer Price Index (CPI) inflation is forecasted to be within the 3 to 6 per cent target band; therefore, municipalities are required to **justify all increases in excess of the projected inflation target for 2023/24** in their budget narratives and pay careful attention to tariff increases across all consumer groups. In addition, municipalities should include a detailed account of their revenue growth assumptions for the different service charges in the budget narrative.

Additional loadshedding considerations when calculating anticipated revenue collection rates include:

- Consumption patterns amongst pre-paid users who work more sparingly with electricity units. This can have a lagging effect on revenue estimations i.e. although units are paid for up front, it is not necessarily used in high-demand periods; and
- A decline in average consumption patterns for post-paid customers.

As part of its debtor management strategy municipalities should clearly communicate the impact of loadshedding on municipal tariff setting, including through education campaigns. Consumers will expect a decrease in their electricity bills as consumption drops due to loadshedding. Not understanding the impact of tariff structures (fixed and demand-driven components) can create distrust and reduce willingness to pay municipal accounts.

5.6 Municipal Debt Relief

An optimally designed debt solution for Eskom can leverage the structural reform of the electricity sector that is needed both on the Eskom side and the municipal side, however, the municipal debt owed to Eskom pose a material risk to any Eskom debt relief package. In parallel the challenge of defaulting municipalities cannot be separated from a consumer culture to not pay for services.

Municipal Debt Relief that is **conditional and application based**, has therefore been sanctioned. The relief is aimed to correct the underlying behaviour and operational practices in defaulting municipalities and Eskom while in parallel, progressively introducing a smart metering solution to change consumer behaviour by instilling a culture of payment for services consumed. The proposal consists of 4 elements:

- i. **Eskom will write-off all debt municipalities owe** as on 31 March 2023 (excluding the March 2023 current account). This will be done over three national financial years and require as a critical qualification that municipalities monthly honour their current (monthly consumption) Eskom and water accounts going forward and maintain a minimum average quarterly collection, etc;
- ii. Secondly, **new mechanisms are explored to resolve non-payment** – this to include a dispute ombud mechanism and re-assigning the license of persistent defaulters;
- iii. Thirdly, Eskom will continue to **implement a regime of installation of pre-paid meters** in Eskom supplied areas to improve Eskom collection. Municipalities are additionally encouraged to adopt a similar operating regime; and
- iv. Lastly, the National Treasury will continue to implement municipal revenue enhancement initiatives, including a transversal tender for a smart pre-paid meter solution to change to a forward looking culture of payment of the consolidated municipal bill.

More details on the application process and related conditions for municipalities will soon be outlined and published through a separate MFMA Circular.

5.7 Bulk Account Payments and Concessions

Since 2018/19, intense work was undertaken to resolve systemic and structural issues pertaining to the electricity function in municipalities. Core to this work was addressing the

escalating Eskom debt that threatened the sustainability of Eskom as well as that of municipalities.

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

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

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

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

5.8 Critical Notice Affecting STS Meters

As highlighted in previous MFMA Circular No. 115 (dated 04 March 2022) municipalities are once again alerted that there is still a pending business risk to the prepayment metering industry that requires urgency of action. The token identifiers (TID) used to identify each credit token will run out of available numbers in November 2024, at which point all STS meters will stop accepting credit tokens.

The remedy is to visit each meter and enter a special set of key change tokens in order to reset the meter memory. Municipalities are advised that the National Treasury, through the Office of the Chief Procurement Officer (OCPO), will soon facilitate a transversal contract for the provision of auditing, re-calibration and re-configuration services for standard transfer specification compliant prepayment meters that align to minimum and critical technical specifications for local government. In this respect the development of the transversal contract for smart prepaid meters as per NRS 049 (per latest approved version) is at an advanced stage and should be issued shortly by National Treasury.

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

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

directed to the National Treasury for the attention of the Local Government Budget Analysis Unit (Mr. Sadesh Ramjathan) at Sadesh.Ramjathan@treasury.gov.za.

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

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

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

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

5.9 Completeness and credibility of revenue related information in the Budget

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

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

Going forward the Treasuries will place increased attention and focus on the adequacy of municipalities' submissions. The National Treasury regards this non-compliance to include the minimum level of information as serious and if persistent will consider applying the available legal sanctions, including recourse in terms of section 216(2) of the Constitution. In this context, National Treasury will particularly focus on the completeness of asset management related information as well as the statistical information required in the A, B and C schedules during the 2023/24 MTREF.

5.10 Eskom Bulk Tariff increases

The National Energy Regulator of South Africa (NERSA) is responsible for the price determination of the bulk costs of electricity. In January 2023, NERSA approved tariff increases of 18.7 per cent in 2023/24 and 12.7 per cent increase in 2024/25. For purposes of calculating the free basic energy subsidy in the local government equitable share formula, the National Treasury has added 2 per cent to these increases. This is in anticipation of higher increases than those published in January, for municipalities, due to the difference in the financial years of Eskom customers and municipalities meaning that Eskom only has nine months to collect the allowable revenue from municipalities. R1.1 billion is added to the free basic energy subcomponent of the free basic services component of the local government equitable share formula to fund these higher tariff increases. To this end, the free basic electricity subsidy in the local government equitable share is calculated based on a 20.7 per cent tariff increase in 2023/24 and a 14.7 per cent increase in 2024/25. In the absence of an approved tariff increase in the outer year of the MTEF period, the formula assumes an increase of 17.7 per cent in 2025/26. This is the average of the estimated increases for the first two years of the MTEF period.

5.11 Updated Municipal Borrowing Policy Framework

Cabinet approved the Update to the Policy Framework for Municipal Borrowing and Financial Emergencies on the 17th of August, 2022. The purpose of the update was to re-examine the original Policy Framework, along with the legislation (i.e. Municipal Finance Management Act – MFMA) that was adopted to implement it, considering the experience with municipal borrowing that has accumulated since 2000.

The following key reforms have been introduced through the Update to the Policy Framework for Municipal Borrowing:

- The Policy Framework for Municipal Borrowing has been updated to introduce the necessary reforms that will expand the scope of responsible municipal borrowing and create an environment that attracts more players (e.g. insurers, pension funds, institutional investors and fund managers, and international Development Finance Institutions) in the municipal debt market space. The original core principles underlying municipal borrowing are maintained (i.e. creditworthy municipalities should borrow prudently to finance capital investment, and that there will be no bail-outs by the provincial or national government);
- The updated policy framework clarifies the role of Development Finance Institutions (DFIs), as it was not clearly articulated in the original policy. DFIs are required to pursue clear and agreed developmental goals, as outlined in the policy. The objective of this approach is to ensure that a DFI lending does not crowd out the private sector. Public-sector lenders, both domestic and foreign, should be guided by a social and developmental investment approach in which demonstrable social outcomes are considered alongside potential financial returns;
- The updated policy framework permits and clarifies innovative infrastructure financing mechanisms (such as pooled financing mechanisms, project finance, tax increment financing, revenue bonds, and pledging of conditional grants) that municipalities can use to leverage municipal borrowing. Municipalities are encouraged to explore these alternatives, and innovative infrastructure financing mechanisms permitted subject to the requirements contained in the Municipal Finance Management Act (MFMA); and
- The participation of both private and public sector market participants in the development of a liquid secondary market for municipal debt securities is also encouraged. The policy proposes options that can be explored to support the development and growth of an efficient and liquid market for municipal debt obligations.

The Updated Municipal Borrowing Policy Framework can be accessed at the MFMA website at the following link <http://mfma.treasury.gov.za/Guidelines/Pages/default.aspx>.

5.12 Tariff Policies

Municipalities must comply with the provisions of Section 74 of the Municipal Systems Act (MSA) which requires that a municipal council must adopt and implement a tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements, and which complies with the provisions of this Act and with any other applicable legislation. Municipalities should also ensure that the tariff policies adhere to all the principles outlined in section 74(2) of the MSA. A municipality's tariff policies must also take into consideration variable factors such as water shortages and electricity feedback excess into the municipal system from new generation capacity. Municipalities are urged to develop wheeling and Small-Scale Embedded Generation (SSEG) frameworks to guide the

development of associated tariffs. Municipalities must adopt by-laws to give effect to the implementation and enforcement of their tariff policies.

5.13 Non-Revenue Electricity and Non-Revenue Water/ Revenue Losses

Water Service Authority municipalities and electricity licensed municipalities are urged to align both their non-revenue water and non-revenue electricity indicators and their set targets in the 2023/24 SDBIPs with identifiable infrastructure or operational projects and/ or programmes. Municipalities should track improvements on the baseline information included in the SDBIPs by indicating the volume of water losses (i.e., kilolitres/ mega-litres) and the amount of electricity losses (KwH or MWs) for the previous year. This approach will help to determine the progress of municipalities in curbing losses, which impact on municipal revenues, in both non-revenue water and non-revenue electricity.

6. Burial of Councillors

Salaries, allowances and benefits for political office-bearers and members is managed through Determination of Upper Limits of Salaries, Allowances and Benefits of Different Members of Municipal Councils notice issued by the Minister of Cooperative Governance and Traditional Affairs.

Section 167 of the MFMA provides that a municipality may remunerate its Councillors within the framework of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998), setting the upper limits of the salaries, allowances and benefits for those political office-bearers and members. Any benefit which is not included in the above-mentioned notice constitutes irregular expenditure and recovery thereof from the Councillor concerned is mandatory.

Municipalities may also refer to relevant Councillor Pension Scheme or personal funeral policies in existence for any funeral benefits relating to such Councillor.

7. Funding choices and management issues

Municipalities are under pressure to generate and collect revenue for service delivered. The ability of customers to pay for services is declining and this means that less revenue will be collected. Therefore, municipalities must consider the following when compiling their 2023/24 MTREF budgets:

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

Accounting officers are reminded of their responsibility in terms of section 62(1)(a) of the MFMA to use the resources of the municipality effectively, efficiently and economically. Failure to do this will result in the accounting officer committing an act of financial misconduct which will trigger the application of chapter 15 of the MFMA, read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014.

7.1 Employee related costs

The Salary and Wage Collective Agreement for the period 01 July 2021 to 30 June 2024 dated 15 September 2021 through the agreement that was approved by the Bargaining Committee of the Central Council in terms of Clause 17.3 of the Constitution should be used when budgeting for employee related costs for the 2023/24 MTREF. In terms of the agreement, all employees covered by this agreement shall receive with effect from 01 July 2023 and 01 July 2024 an increase based on the projected average CPI percentages for 2023 (5.4 per cent according to the Reserve Bank's Monetary Committee Statement for January 2023) and 2024 (4.8 per cent according to the Reserve Bank's Monetary Committee Statement for January 2023). The forecasts of the Reserve Bank, in terms of the January 2023 and January 2024, shall be used to determine the projected average CPI. Municipalities are encouraged to perform an annual head count and payroll verification process by undertaking a once-a-year manual salary disbursement, to root out ghost employees.

According to the 2021 State of Local Government Finance Report, there are about 165 municipalities that are in financial distress. These municipalities need to ensure that they seek an early exemption from this dispensation of this salary agreement. Municipalities should also avoid paying out leave in cash while having major financial challenges.

7.2 Remuneration of Councillors

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

8. Conditional Grant Transfers to Municipalities

8.1 Criteria for the release of the Equitable Share

The equitable share release criteria for 2023/24 were set out in MFMA Circular No. 122. To assist with managing this process, a guiding checklist has been developed (attached hereto as Annexure A) which municipalities can follow throughout the course of the year to ensure that the required documents are timeously uploaded to the GoMuni platform in line with the prescribed deadlines.

Going forward, municipalities will be required to submit the completed checklist as part of the quarterly performance reporting process for quarter 1 of the municipal financial year. According to section 52(d) of the MFMA, the mayor of a municipality must within 30 days of the end of each quarter, submit a report to council on the implementation of the budget and the financial state of affairs of the municipality. The report must then be submitted to National

and Provincial Treasury within 5 days of being tabled in council as per section 32 of the MBRR. The report for quarter 1 of 2023/24 must therefore be submitted to council by the end of October 2023 and submitted to National and Provincial Treasury by no later than 5 November 2023. By including the completed checklist in this report, municipalities confirm their adherence to the equitable share release criteria, including that all supplementary information (as defined in the checklist) was successfully uploaded to the GoMuni platform.

Please note that most of the information required for the release of the equitable share, is already uploaded/ submitted by municipalities as part of existing reporting requirements throughout the year. There are however a few items (clearly marked in the checklist) that does not have a dedicated storage location (for example, payments of employee benefits) on GoMuni. A dedicated Equitable Share Verification Folder will be created on GoMuni for this purpose.

8.2 Criteria for the rollover of conditional grant funds

In terms of Section 21 of the Division of Revenue Act, 2022 (Act No.5 of 2022) (DoRA) in conjunction with the Division of Revenue Amendment Act, 2022 (Act No. 15 of 2022) (DoRAA), the Act requires that any conditional allocation or a portion thereof that is not spent at the end of the 2022/23 financial year reverts to the National Revenue Fund (NRF), unless the rollover of the allocation is approved in terms of subsection (2). Furthermore, the receiving officer, provincial treasury and national transferring officer is required to prove to National Treasury that the unspent allocation is committed to identifiable projects, in which case the funds may be rolled over.

When requesting a rollover in terms of section 21(2) of the 2022 DoRA, municipalities must include the following information with their submission to National Treasury:

1. A formal letter, signed by the accounting officer addressed to the National Treasury requesting the rollover of unspent conditional grants in terms of section 21(2) of the 2022 DoRA;
2. A list of all the projects that are linked to the unspent conditional grants and a breakdown of how much was allocated, spent and the balance per project;
3. The following evidence indicating that work on each of the projects has commenced, as applicable to the specific rollover(s):
 - a) Proof that a contractor or service provider was appointed for delivery of the project before 31 March; or
 - b) Proof of project tender and tender submissions published and closed before 31 March or with the appointment of contractor or service provider for delivery of service before 30 June in cases where additional funding was allocated during the course of the financial year of the project;
 - c) Incorporation of the Appropriation Statement;
 - d) Evidence that all projects linked to an allocation will be fully utilised by 30 June 2024 (attach cash flow projection for the applicable grant).
4. A progress report (also in percentages) on the status of each project's implementation that includes an attached **legible implementation plan**);
5. The value of the committed project funding and the conditional allocation from the funding source;
6. Reasons why the grants were not fully spent during the year on the original allocation per the DoRA;
7. Rollover of rollovers will not be considered. Municipalities must therefore not include previous year's unspent conditional grants as rollover request;
8. An indication of the time period within which the funds are to be spent if the rollover is approved; and

9. Proof that the Municipal Manager and Chief Financial Officer are permanently appointed.

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

If any of the above information is not provided or the application is received by National Treasury (Intergovernmental Relations Division) after 31 August 2023, the application will be declined.

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

1. Compliance with the in-year reporting requirements in terms of sections 71 and 72 of the MFMA and section 12 of the 2022 DoRA, **including the Municipal Manager and Chief Financial Officer signing-off on the information** sent to National Treasury;
2. Submission of the pre-audited Annual Financial Statements to National Treasury by 31 August 2023;
3. Accurate disclosure of grant performance in the 2022/23 pre-audited Annual Financial Statements, (i.e. correct disclosure of grant receipts and spending in the notes to the AFS);
4. Despite the fact that local government is required to comply with to different norms and standards prescribed by different legislations, municipalities are expected to fully comply with the provisions of DoRA that relate to rollover processes and disclose conditional grant performance in the 2022/23 pre-audited Annual Financial Statements (i.e Cash coverage and unspent conditional grants in the Statement of Financial Position) in order to verify grant expenditure; and
5. Cash available reflected in the Statement of Financial Position and Cash Flow Statements and the bank (net position including short term investments) as at 30 June 2023 is equivalent to the unspent amount at the end of the financial year. If the amount that is requested for rollover **is not entirely cash-backed**, such a rollover will not be approved. National Treasury will also not approve portions of rollover requests.

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

1. The entire 2022/23 allocation to the municipality, in cases whereby the rollover request is more than 50 per cent of the total allocation, National Treasury will approve the rollover amount up to 50 per cent of the 2022/23 allocation;
2. Rollover request of the same grant for the third consecutive time. In a case where a municipality is applying for rollover as a result of additional funding, the application will be given a careful consideration;
3. Funding for projects procured through Regulation 32 of the Municipal Supply Chain Management Regulations (Gazette No.27636) – Projects linked to additional funding and disasters are exempted; and
4. A portion of an allocation where the proof of commitment for the rollover application is linked to invoices that were issued before or on 31 May 2023.

8.3 Unspent conditional grant funds for 2022/23

The process to ensure the return of unspent conditional grants for the 2022/23 financial year will be managed in accordance with section 22 of the DoRA. In addition to the previous MFMA Circulars, the following practical arrangements will apply:

- Step 1: Municipalities must submit their June 2023 conditional grant expenditure reports according to section 71 of the MFMA reflecting all accrued expenditure on conditional grants and further ensure that expenditure reported to both National Treasury and national transferring officers reconciles;
- Step 2: When preparing the Annual Financial Statements, a municipality must determine the portion of each national conditional grant allocation that remained unspent as at 30 June 2023. The unspent grant values must be determined based on the guidance that was provided in mSCOA Circular No. 13 in as far as VAT, retention and interest is concerned; and
- Step 3: If the receiving officer wants to motivate in terms of section 22(2) of the 2020 DoRA that the unspent funds are committed to identifiable projects, the rollover application pack must be submitted to National Treasury by no later than 31 August 2023.

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

- Step 4: National Treasury will confirm in writing whether or not the municipality may retain any of the unspent funds as a rollover based on criteria outlined above by 20 October 2023;
- Step 5: National Treasury will communicate the unspent conditional grants amount by 08 November 2023. A municipality must return the remaining unspent conditional grant funds that are not subject to a specific repayment arrangement to the National Revenue Fund by 17 November 2023; and
- Step 6: Any unspent conditional grant funds that should have but has not been repaid to the National Revenue Fund by 17 November 2023, and for which a municipality has not requested a repayment arrangement, will be offset against the municipality's 06 December 2023 equitable share allocation.

All other issues pertaining to Appropriation Statement and reporting on approved rollovers are addressed in the Annexure to MFMA Circular No. 86.

9. The Municipal Budget and Reporting Regulations

9.1 Alignment of Municipal Budget and Reporting Regulations (MBRR) Schedules

The revised Regulated MBRR Schedules (A1, B, C, D, E and F), as aligned to the mSCOA chart and GRAP are published on the National Treasury web page and can be accessed using the following link.

<http://mfma.treasury.gov.za/RegulationsandGazettes/Municipal%20Budget%20and%20Reporting%20Regulations/Documents/Forms/AllItems.aspx?RootFolder=%2fRegulationsandGazettes%2fMunicipal%20Budget%20and%20Reporting%20Regulations%2fDocuments%2f2023%2d24&FolderCTID=0x0120001860D4A2BD7AD042BF8427FC3BB59F67>

The alignment of the A1 Schedules required substantial changes to the reporting formats used for budgeting and reporting purposes which required the creation of new A1 Schedule codes to ensure that the data strings populate the new reporting formats. The relevant changes were also made in the reporting formats relating to versions 6.1 to 6.7 of the mSCOA chart to ensure that the historical data are populating when reports are drawn from GoMuni.

To ensure that ERP systems generate the A1 Schedule aligned to version 6.7 of the mSCOA chart, municipalities and system vendors should refer to the linkages provided on GoMuni. The following reports on GoMuni should be used for this purpose:

- List *m*SCOA account linkages to A1 Schedule based on 6.7 under menu option *m*SCOA Reporting; and
- List *m*SCOA A1 schedule codes WIP (i.e. new A1 Schedule codes) under menu option *m*SCOA Administration.

Both reports can be located under:

https://lg.treasury.gov.za/ibi_apps/portal/Local_Government_Database

The new format for the non-financial data strings A1D and A1F is available on the link below:

<http://mfma.treasury.gov.za/RegulationsandGazettes/Municipal%20Budget%20and%20Reporting%20Regulations/Documents/Forms/AllItems.aspx?RootFolder=%2fRegulationsandGazettes%2fMunicipal%20Budget%20and%20Reporting%20Regulations%2fDocuments%2f2023%2d24&FolderCTID=0x0120001860D4A2BD7AD042BF8427FC3BB59F67>

The A1D is the data string which populates information which we do not extract from the TABB while the A1F populates the budget information which we do not extract from the ORGB. Municipalities should ensure that they use the new format when submitting the non-financial data strings.

10. Submitting budget documentation and A1 schedules for 2023/24 MTREF

The MFMA and its Regulations require the submission of *m*SCOA data strings for budgets, in-year reporting, and annual financial statements in a specific format and by a required timeframe. The credibility and accuracy of the *m*SCOA data strings must be verified by municipalities prior to submission to the GoMuni Upload portal. Since the financial system must be locked at the end of the month in order to generate a *m*SCOA data string, municipalities may not open closed periods to correct errors. Errors must be corrected in the next open period. Providers of municipal financial systems must ensure that the necessary internal controls are built into the system to prevent the opening of closed periods on the financial system and the bypassing of such controls. This also applies to the correction of information in closed periods for 3rd party systems that should be integrating with the main financial system in terms of the requirements of the *m*SCOA Regulations.

From 1 July 2023, Municipal Managers and Chief Financial Officers will be required to sign off on the financial and non-financial data strings submitted to the GoMuni Upload portal when they submit their data strings. The schedules prescribed in terms of the Municipal Budget and Reporting Regulations (MBRR) populated from the *m*SCOA data strings on National Treasury's Local Government and Reporting System (LGDRS) must also be signed off monthly. These sign-offs are for audit purposes and serves as a confirmation by the municipality that the data strings submitted are accurate. Details on the submission of the signed-off figures will be communicated in due course.

In terms of Section 171 of the MFMA, financial misconduct by municipal officials includes the provision of incorrect or misleading information in any document which must be submitted to the National Treasury.

From 1 July 2023, the GoMuni Upload portal for the monthly in-year data strings will be closed at 16h00 on the 10th working day of each month. All publications by the National and Provincial Treasuries are now solely sourced from the *m*SCOA data strings submitted by

municipalities and several stakeholders including Statistics South Africa (STATSSA), Auditor General South Africa (AGSA), the Reserve Bank, and NERSA are in the process of streamlining some of their reporting to the information contained on the National Treasury Local Government Database and Reporting System (LGDRS). The resubmission of data strings after the legislated timeframes is not only illegal but also causing challenges in data sets used by various stakeholders for analysis and reporting purposes. **No data string submissions will therefore be accepted by the National Treasury after the 10th working day of the respective month.**

Contact



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JH Hattingh

Chief Director: Local Government Budget Analysis

03 March 2023

ANNEXURE A: Equitable Share Verification Checklist:

General Requirements

Criteria	Verification Requirement	Yes/No
2023/24 Adopted Budget	Council resolution, adopted <i>m</i> SCOA budget data strings (ORGB), PDF version of adopted MTREF budget uploaded to GoMuni Upload portal immediately after approval.	
Is the municipality's completed tariff tool (National Treasury format) included as part of its budget submission (MFMA Budget Circular No. 98 (refer item 4.2)).	The completed National Treasury EXCEL tariff tool uploaded to GoMuni with the adopted budget by start of budget year i.e. 1 July 2023 .	
Are allocations made for bulk suppliers current account payments?	Allocations reflected in <i>m</i> SCOA budget data strings (ORGB) and budget schedules/ document.	
<i>If unfunded budget position–</i>	-	
Is a Budget Funding Plan (BFP) adopted with the budget?	Copy of the adopted Budget Funding Plan uploaded to GoMuni with the adopted budget by start of budget year i.e. 1 July 2023 .	
	PDF version of BFP/progress report uploaded to GoMuni Upload portal by start of budget year i.e. 1 July 2023 .	
	Is the BFP credible and show how the municipality intends moving progressively out of this position into a funded state?	
	In the case of the latest progress report being submitted, is it aligned to the rescue phase of the new approach to Municipal Financial Recovery Service (MFRS)?	
Council resolution reflecting commitment to address unfunded position.	PDF copy of resolution uploaded to GoMuni Upload portal by start of budget year i.e. 1 July 2023 .	
<i>m</i>SCOA		
Submission of Data Strings	Successful submission of all financial and non-financial <i>m</i> SCOA data strings to the GoMuni Upload portal	
	Timeous submission of all financial and non-financial <i>m</i> SCOA data strings to the GoMuni Upload portal	
	Data strings submitted are credible as per the analysis done by NT/PTs	
	Data strings are generated directly from the main municipal financial system	
	The regulated MBRR Schedules are generated directly from the core municipal financial system	
	Successful submission of all financial and non-financial <i>m</i> SCOA data strings to the GoMuni Upload portal	
Submission of documents	Municipal documents required in terms of legislation and MFMA Circulars have been submitted timeously and in the required format to the GoMuni Upload portal.	
Financial System Changes	Municipality has followed the processes in Circulars No. 93, 98, 123 and <i>m</i> SCOA Circulars No 5 and 6 to change their financial system.	
UIF & W		
UIF&W Register	Documents need to be uploaded to NTs eMonitoring Webpage	
MPAC recommendation on UIF&W		
Council Resolution on UIF&W		
UIF&W Reduction Strategy		
Disciplinary Board		
Does the municipality have a functional disciplinary board?	Proof of establishment (or efforts to establish DC Board) uploaded to NTs eMonitoring Webpage NTs eMonitoring Website.	
Competency Regulations		
Has the minimum municipal competency regulations reporting requirements been adhered to?	In line with the Competency Regulations, consolidated reporting information must be uploaded to GoMuni by 30 January 2023 and 30 July 2023 .	
Audit Process		
Opinion Received	Did the municipality receive an adverse or disclaimed audit opinion or had outstanding audits for two consecutive financial years?	
Adverse or disclaimed audit opinion	Council resolution signed by each member of the Council was uploaded to NT's eMonitoring Webpage within 1 month after conclusion of the audit process reflecting council's commitment to address the opinion.	
Is a council approved audit action plan in place?	Audit action plan, together with council resolution, to be uploaded to NT's eMonitoring Webpage within 60 days from audit report issuance.	
Interventions (where applicable)		
In the event of a discretionary or mandatory intervention in terms of section 139 of the Constitution, is a Financial Recovery Plan (FRP) in place?	The FRP and monthly progress reports submitted in terms of sections 145 and 146 of the MFMA must be uploaded to GoMuni Upload portal for each month since the inception of the FRP.	

Quarterly Requirements

Criteria	Verification Requirement	Quarter 3 (Jan – March)	Quarter 4 (April – June)	Quarter 1 (July – Sept)	Quarter 2 (Oct – Dec)
Bulk Supplier Payments					
Were current account payments to bulk suppliers (Eskom and Water Boards) timeously made?	PT/NT to verify status according to MFMA S41 Report. No action required from municipality if account in good standing.	-	-	-	-
<u>If current account in arrears, are payment agreements in place?</u>	Copy of payment agreement or evidence of discussions are uploaded to on GoMuni Upload portal.				
Staff benefit Deductions					
Were a) SARS, b) pension and c) other staff benefits timeously paid over to the relevant funds/institutions?	Proof of payment for each category, for each month of the quarter uploaded to on GoMuni Upload portal.				
Reconciliation of Valuation Roll					
Has the valuation role been reconciled to the financial system?	In line with MFMA Circulars No. 93, 98 and 107, proof of the verification for each quarter should be uploaded on GoMuni Upload portal.				



Reference number: RCS/C.5

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TREASURY CIRCULAR MUN NO. 4/2023

THE MAYOR, CITY OF CAPE TOWN
THE MAYOR, WEST COAST DISTRICT MUNICIPALITY
THE MAYOR, MATZIKAMA MUNICIPALITY
THE MAYOR, CEDERBERG MUNICIPALITY
THE MAYOR, BERGRIVIER MUNICIPALITY
THE MAYOR, SALDANHA BAY MUNICIPALITY
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THE MAYOR, BITOU MUNICIPALITY
THE MAYOR, KNYSNA MUNICIPALITY
THE MAYOR, CENTRAL KAROO DISTRICT
THE MAYOR, LAINGSBURG MUNICIPALITY
THE MAYOR, PRINCE ALBERT MUNICIPALITY
THE MAYOR, BEAUFORT WEST MUNICIPALITY

For information

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THE PROVINCIAL AUDITOR

MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT

THE HEAD OF DEPARTMENT: LOCAL GOVERNMENT

THE CHIEF DIRECTOR: LOCAL GOVERNMENT BUDGET ANALYSIS – NATIONAL TREASURY (MR J HATTINGH)

THE CHIEF DIRECTOR: MFMA IMPLEMENTATION – NATIONAL TREASURY (MR TV PILLAY)

WESTERN CAPE FINANCIAL MANAGEMENT CAPABILITY GRANT REPORTING REQUIREMENTS

1. PURPOSE

The purpose of this Circular is to inform municipal Chief Financial Officers (CFOs), Municipal Managers and other municipal officials of the in-year reporting requirements associated with Western Cape Financial Management Capability Grant (WC FMCG) funding allocations.

2. BACKGROUND

Following an extensive conditional grant review, in the 2022/23 financial year, Provincial Treasury (PT) merged the **Western Cape Financial Management Support Grant** and the **Western Cape Financial Management Capacity Building Grant** to establish a single grant funding mechanism in the form of the Western Cape Financial Management Capability Grant (WC FMCG). The intention of this merger was to streamline the allocation process and to remove any possible overlaps between the former two grants.

The detailed Grant Framework was published in Provincial Gazette 8566 on 14 March 2022. In line with section 29(2) of the 2022 DoRA, the Western Cape Appropriation Act (Act 2 of 2022) earmarked an amount of R18.759 million to the WC FMCG for 2022/23.

Allocations from the WC FMCG will primarily support two functions: contributions towards *financial management projects*; and an *External Bursary Programme*.

Financial Management Projects

An official request was directed to all municipalities in the latter part of 2022 to consider the grant allocation criteria as contained in the Grant Framework and to submit proposals for projects to be funded by the grant. Targeted support areas were also identified through the various in-year financial performance monitoring (IYM) processes as well as the Strategic and Technical Integrated Municipal Engagements (SIME & TIME). PT considered all proposals received and requested qualifying municipalities to submit formal implementation plans.

External Bursary Programme

The WC FMCG will in 2022/23 continue to give effect to the need for human capacity building support as envisaged in the old Western Cape Financial Management Capacity Building Grant (WC FMCBG). The municipal specific allocations towards the External Bursary Programme were determined following a review of financial and non-financial performance against previous bursary allocations.

Municipalities were formally notified in January 2023 of the financial management project and external bursary programme allocations and were requested to sign binding agreements prior to the transfer of the 2022/23 allocations. As required by the 2022 DoRA, PT published the final municipal specific allocations (contributions to both financial management projects and the external bursary programme) in the Provincial Gazette Extraordinary No. 8712 in February 2023.

In line with the outcomes of the grant review process, PT has also strengthened its control mechanisms to more accurately monitor the impact of the funding provided in line with the intended outcomes contained in the grant framework. To this end, PT refined the financial and non-financial reporting requirements for municipalities to better align with the commitments made in the project implementation plans.

While these requirements are briefly captured in the formal contractual agreements signed between municipalities and PT prior to the transfer of the 2022/23 allocations, this circular clarifies in more detail what will be expected of municipalities.

3. REPORTING REQUIREMENTS

Formal in-year reporting against the 2022/23 WC FMCG allocations must be institutionalised as part of the existing monthly and quarterly financial and non-financial reporting mechanisms provided for in respectively sections 71 and 52 of the Local Government: Municipal Finance Management Act (MFMA) (Act 56 of 2003) (MFMA).

MFMA Section 71 Monthly Reporting

Section 71 of the MFMA requires that the accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor and the relevant provincial treasury a statement, in the prescribed format, on the state of the municipality's budget. The format is prescribed in Schedule C of the Municipal Budget and Reporting Regulations (MBRR) and specifically requires that the statement (report) should include an overview of allocation and grant receipts and expenditure.

As the WC FMCG funding transfers were processed in February 2023, municipalities must ensure that the section 71 report due on 10 March 2023 reflects the amount published in Provincial Gazette Extraordinary No.8712. Municipalities must continue to reflect on expenditure against these allocations in all upcoming S71 reports.

The S71 report should distinguish between the WC FMCG allocations received for financial management projects and the external bursary programme. This is only applicable to municipalities who received both types of allocations.

Provincial Treasury is aware that most municipalities are already reporting against grant allocations in their monthly reports. This notice therefore merely serves as a timeous reminder that the inclusion of grant related expenditure in the S71 reports is a basic condition of the grant.

MFMA Section 52 Quarterly Reporting

Section 52(d) of the MFMA states that the mayor of the municipality must, within 30 days after the end of each quarter, submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality. This report must be placed on the municipal website and/or be submitted to the Provincial Treasury within five days after its tabling in council.

The S52(d) report must also be in the format prescribed in Schedule C of the MBRR and be consistent with the monthly budget statements for the quarter as applicable. In similar fashion to the S71 report, the S52(d) report should therefore also reflect on expenditure against the WC FMCG.

The quarterly report differs from the S71 report in terms of the need to submit a concise non-financial progress report of each project (both financial management projects and external bursary support) for which it received funding from the WC FMCG. While municipalities frequently report on grant expenditure (quantitative reporting), PT has introduced this requirement as a qualitative measure of value. Municipalities are requested to complete the non-financial return form (**Annexure A**) for each project and the external bursary programme and to include it in the S52(d) report submitted to council (and eventually provincial treasury).

Close-out Report (Only applicable to financial management projects)

Municipalities are required to submit a project close-out report at the end of the financial year to provide PT with an update on the project results and to reflect on lessons learnt. The close-out report should more specifically reflect on the impact statement contained in the implementation plan to ascertain whether the desired outcomes were achieved.

The close-out report should be submitted to PT within one month of the end of the municipal financial year i.e., by 1 August 2023. Please note that the close-out report is required irrespective of whether a roll-over application was made/approved.

The close-out report does not have to refer to the external bursary programme as progress against these allocations are monitored throughout the year.

4. NON-COMPLIANCE

Failure by the Municipality to report on the grant performance through the monthly, quarterly and close-out reports described above constitutes a breach of the formal contractual agreement signed prior to the transfer of funds will trigger a formal letter of caution from the Department.

Failure by a municipality to remedy such a breach within ten (10) working days of receiving the letter of caution could result in the Department, without prejudice to any other remedy which may be available to it, cancelling the agreement and claiming back all allocated funds with interest from the transgressing municipality.

5. APPLICATION

The reporting requirements outlined in this Circular is applicable to all 2022/23 WC FMCG allocations and will further remain in place for any future annual WC FMCG allocations, unless replaced or revoked.

DR R HAVEMANN

DEPUTY DIRECTOR-GENERAL: FISCAL AND ECONOMIC SERVICES



Reference: RCS/C.5

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TREASURY CIRCULAR MUN. NO. 5/2023

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THE MAYOR, MATZIKAMA MUNICIPALITY
THE MAYOR, CEDERBERG MUNICIPALITY
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MUNICIPAL BUDGET CIRCULAR FOR THE 2023/24 MTREF AND ASSOCIATED 2023 STRATEGIC INTEGRATED MUNICIPAL ENGAGEMENTS

1. INTRODUCTION

This Circular should be read in conjunction with National Treasury (NT) MFMA Circulars No. 122 and No. 123 issued on 09 December 2022 and 03 March 2023 respectively.

The purpose of this circular is to:

- Provide an overview of the current fiscal and economic context and key highlights from the 2023 National Budget as well as the 2023 Provincial Budget (Section 3; pages 4-6)
- Provide guidance to municipalities with the **finalisation of the 2023/24 Medium Term Revenue and Expenditure Framework (MTREF) Budgets** and accompanied budget documentation (Section 4; pages 7-15), and
- **Brief municipalities on the 2023 Strategic Integrated Municipal Engagements (SIME) process** and related matters (Section 5; pages 15-18).

2. LEGISLATIVE CONTEXT

The Western Cape Provincial Government (WCG) has institutionalised the Strategic Integrated Municipal Engagements (SIME; previously referred to as LG MTEC) 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 2023 SIME process builds on the 2021 integrated municipal and Provincial processes to strengthen alignment between municipal and Provincial planning and budgeting and drives the theme of “**Integrated service delivery**”, as municipalities are preparing for the second year of the 2022-2027 Integrated Development Planning Cycle.

3. FISCAL AND ECONOMIC CONTEXT

3.1 Economic and Fiscal Environment

The South African economy is expected to slow in 2023 and over the medium term and the risks to the economic outlook remain elevated. Real economic growth is projected to be 2.5 per cent in 2022. However, due to extensive power outages and other domestic logistical constraints, the South African Reserve Bank (SARB) forecasts real GDP growth of only 0.3 per cent in 2023. The SARB has also revised its 2024 and 2025 projections downwards to 0.7 per cent and 1.0 per cent, respectively. The 2023 SIME process will therefore take place in a time of heightened economic uncertainty and downside risks.

The broad-based slowdown of the global economy combined with a weaker economic outlook for South Africa has decelerated growth prospects for the Western Cape. The Province faces challenges such as weak consumer demand, higher inflation and rising interest rates while also being exposed to national challenges of port and rail inefficiencies, labour unrest, and power outages. Consequently, the Western Cape economy is expected to have expanded moderately by 2.0 per cent in 2022 and 1.9 per cent in 2023.

While the expectation has been that inflation would remain steady, annual headline Consumer Price Inflation (CPI) moved to 7.0 per cent in February 2023, largely driven by sharp hikes in food prices. Additionally, the US central bank raised its key interest rates by 25 basis points on the 22 March 2023, which increases the likelihood of a similar interest rate hike for South Africa. An announcement will be made on the 30 March 2023, following the SARB'S Monetary Policy Committee (MPC) meeting next week.

The following macro-economic forecasts for Consumer Price Index (CPI) inflation must be considered when preparing the 2023/24 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections, 2021 – 2026

Fiscal year	2021/22 Actual	2022/23 Estimate	2023/24	2024/25	2025/26
CPI Inflation	4.9%	6.9%	5.3%	4.9%	4.7%

Source: NT MFMA Budget Circular No. 123

3.2 2023 National Budget

The 2023 National Budget has been presented in the context of significant economic and social challenges facing South Africa. Key highlights of the national budget include:

- It is projected that the consolidated budget deficit will continue to decline over the MTEF period, narrowing to 3.2 per cent in 2025/26. Total public sector debt is projected to stabilise at 73.6 per cent of GDP by 2025/26, after factoring in the Eskom debt-relief plan. Debt-service costs will rise to R397.1 billion in 2025/26, from R307.2 billion in 2022/23.
- It is anticipated that the gross tax revenue in 2022/23 will amount to R1.69 trillion, R93.7 billion more than the previous estimate from the 2022 Budget estimate. The higher-than-expected revenue is attributed to growth in most major tax bases despite intensified load-shedding and weaker global economic conditions. Given the various pressures over the MTEF period, it is necessary to allocate some of the extra revenue to reducing the fiscal deficit instead of utilising such to fund additional expenses.

- The 2023 Budget includes tax relief measures totalling R13 billion to facilitate the transition to clean energy, increase electricity supply, and alleviate the persistent impact of high fuel prices. Of this amount, R9 billion is provided to encourage households and businesses to invest in renewable energy.
- Over the next three years, the consolidated spending budget amounts to R7.08 trillion, with the bulk of the amount allocated towards the social wage. This encompasses the combined public expenditure on health, education, housing, social protection, transport, employment, and the local amenities.
- The proposed medium-term plan includes additional baseline allocations of R227 billion since the 2022 Budget. These increments are aimed at promoting infrastructure development, crime reduction, and enhancing healthcare and education services. Moreover, the cost of servicing the debt is expected to account for an average of 17.1 per cent of the main budget expenditure over the medium term.
- As the social wage takes up a significant portion of public expenditure, the 2023 MTEF allocates a significant share of nationally collected revenues to Provincial and local government. After setting aside funds for debt servicing costs, contingency and unallocated reserves, and provisional allocations, 41.5 per cent of the revenue generated nationwide will be distributed to provinces, while 10 per cent will be allocated to local government. Moreover, an additional R1.1 billion is allocated to the electricity component of the local government equitable share formula in 2023/24. This will offset additional charges for households that receive free basic electricity within municipalities.
- Over the 2023 MTEF period, local government allocations will increase by a total of R14.3 billion, made up of R8.1 billion in the local government equitable share and R6.2 billion in direct conditional grants.
- The local government equitable share formula has been updated to account for projected household growth, inflation and estimated increases in bulk water and electricity costs over the 2023 MTEF period. The 2023 Budget ensures adequate provision through the local government equitable share to ensure that all municipalities are fully subsidised to support indigent households.
- R1.35 billion has been left unallocated in the LGES formula for 2023/24 to serve as a precautionary measure should municipal electricity tariffs exceed the 20.7 per cent provided for in the formula. If the actual increase in municipal bulk tariffs exceeds the provision made in the formula, it will be the first call on those unallocated funds.
- National government transfers in the form of the provincial equitable share (PES) and Conditional grants are projected to increase from R73.523 billion in the 2022/23 revised estimate to R78.527 billion in 2025/26. This represents an annual average growth rate (AAGR) of 2.2 per cent. The Western Cape's net effect of the annual technical data updates to each of the PES formula components, together with the introduction of the new health risk-adjusted index reduced its PES share from 10.5 per cent in the 2022 MTEF to 10.3 per cent over the 2023 MTEF. The reduction is phased in over the three years to provide greater stability and predictability in the Provincial medium-term planning and budgeting process.
- These changes have a very real and tangible fiscal impact on the Province. Over the 2023 MTEF, the Western Cape's overall adjustment to the baseline together with the annual data updates to the various PES formula components amounted to a reduction of R1.919 billion, due to the impact of the revision to the health risk-adjusted index.

- The Western Cape's Conditional grant allocation over the 2023 MTEF period totals R14.474 billion in 2023/24, R14.408 billion in 2024/25 and R15.079 billion in 2025/26, constituting 17.8 per cent on average of the Province's total receipts.
- The Province's Conditional grant allocation increased by 1.9 per cent from a revised estimate of R14.201 billion in 2022/23. Over the 2023 MTEF, Conditional grants increased by R698.816 million or AAGR of 8.5 per cent. From the various additional allocations, the largest allocation was R417.634 million towards the Provincial Roads Maintenance Grant in 2023/24.
- The aggregate local government equitable share (LGES) increases at an average annual rate of 9.3 per cent from R83.7 billion in 2022/23 to R109.4 billion in 2025/26, mainly to provide for above-inflation escalation costs in bulk electricity and water supply. The equitable share includes allocations for the operational and maintenance costs associated with the provision of free basic services.
- The total LGES applicable for the Western Cape Municipalities equate to R7.343 billion for the 2023/24 financial year, increasing by 10 per cent from the 2022/23 allocation (R6.666 billion). The total allocations to municipalities (including the direct and indirect conditional Grants) are reflected as R13.290 billion in the 2023/24 financial year. The figure reveals a 14 per cent increase from the 2022/23 financial year (R11.637 billion).

The 2023 National Budget documentation is available [here](#).

3.3 2023 Western Cape Provincial Budget

On Tuesday, 14 March 2023, the Western Cape Minister for Finance and Economic Opportunities, Ms. M Wenger, tabled the 2023 Western Cape Budget in the Provincial legislature. The Western Cape's 2023 Budget supports ongoing economic recovery by driving the Provincial priorities of Growth for Jobs, Safety and Wellbeing enabled by Innovation, Culture and Governance. Key highlights of the Provincial budget include:

- Over the three years of the 2023 MTEF, R39.824 billion has been allocated to boost economic growth and create opportunities for our citizens. Additionally, R4.760 billion is allocated to ensure safer communities and R170.911 billion has been allocated to ensure the wellbeing of residents in the Western Cape, which includes key services such as Education and Health. Lastly, R19.270 billion is allocated towards Innovation, Culture and Governance, the enablers of these key policy priority areas.
- By functional area, the three largest expenditures in 2023/24 are; education (R29.548 billion), health (R28.805 billion), and infrastructure and economic affairs (R11.7 billion). An additional R350 million has been allocated towards education infrastructure to accelerate infrastructure delivery to respond to a growth in demand for places in our schools.
- The 2023 Budget has a strong focus on improving energy resilience in the province with R1.1 billion set aside for the MTEF period, R598.475 million of this already allocated. The WCG aims to reduce the impact of loadshedding, improve advances in the green economy, set up a strong pipeline of green energy projects, scale up support to municipalities to help them get more power into the grid, and identify critical transmission infrastructure upgrades. Over the 2023 MTEF, the Department of Economic Development and Tourism (DEDAT) is allocated R24.0 million to improve energy resilience in municipalities. Additionally, the Department of Local Government will receive a total of R57.5 million to help municipalities pilot renewable energy solutions and includes the provision of specialists to find best-fit renewable energy options as well as the creation of municipal energy master plans. Additionally, R40 million will be allocated in each year

across the MTEF period for energy related project preparation support, particularly by municipalities, under the management of the Department of Infrastructure.

- The Department of Infrastructure is allocated significant funding for project preparation support. This includes earmarked allocations for mixed-use developments. A total of R32.4 million is allocated for mixed-use developments in the 2023/24 financial year and includes projects in Stikland North, Oude Molen, Leeuwenhof, Leeuloop and Caledon.
- The Western Cape Government will spend R80.319 billion across all municipal areas in the Province. The 2023 expenditure distribution per region is as follows: Cape Metro (R55.148 billion; 68.7 per cent), Cape Winelands (R9.643 billion; 12.01 per cent), Garden Route District (R7.356 billion; 9.16 per cent) West Coast District (R4.088 billion; 5.09 per cent) Overberg (R2.917 billion; 3.63 per cent) and Central Karoo District (R1.101 billion; 1.37 per cent).
- In addition to the WCG's emphasis on energy resilience, focus will also be placed on the ease of doing business, by working to improve the efficiency of the Port of Cape Town, by implementing the Municipal Ease of Doing Business Planning and Building Permit Reform Programme, and by improving the processes which inform Environmental Impact Assessments.
- The Western Cape Provincial Government has allocated R2.8 billion in conditional grants to municipalities in 2023/24 that must be taken up in municipal budgets. These allocations, as well as forward projections for the rest of the 2023/24 MTREF period are set out in Provincial gazette number 8730 of 14 March 2023 (available with the rest of the Provincial budget documents at the link above). The allocations to each municipality have also been summarised in an allocation letter sent to each municipality. These grants cover a wide range of functions, from strengthening the capacity of municipalities to deliver on their mandates to funding capital projects and delivering services on behalf of the province. The purpose of each grant is set out in its grant framework in the gazette.
- Municipalities are encouraged to refer to Chapter 6 of the Overview of Provincial Revenue and Expenditure (OPRE) which outlines the spatial distribution and the sectoral breakdown of education, health and wellness, infrastructure, and other Provincial expenditure across the Metro, district, and local municipalities in the Western Cape. Additionally, Chapter 3 of the Overview of Provincial Municipal Infrastructure Investment (OPMII) summarises the Provincial Government's infrastructure investment plans in each municipality. For further information on provincial allocations, kindly direct queries to:
Budgetoffice.provincialtreasury@westerncape.gov.za
- The 2023 Provincial Budget documentation can be accessed [here](#).

4. NATIONAL AND PROVINCIAL BUDGET GUIDELINES

The NT and PT circulars provide guidance to municipalities on revenue, expenditure and accounting related matters for consideration when compiling their 2023/24 MTREF budgets. Please note the following important matters:

- Municipalities are advised to consult MFMA Circulars No. 122 (2022) and No. 123 (2023) for guidance in respect of planning and budgeting towards the 2023 MTREF, available at this [link](#).
- Municipalities MUST include the National and Provincial Treasury Budget Circulars as part of the source documents consulted in the preparation of the 2023 MTREF Budget documents and table it as part of the budget documentation in the municipal council.

4.1 Key focus areas for the 2023/24 budget process

4.1.1 Local government conditional and unconditional grant allocations

- Over the 2023 MTEF period, NT will undertake the following reforms to refine the local government equitable share formula:
 - Introduce a cost differential model** which considers factors such as distances, topography and settlement type in the basic services component.
 - Introduce a separate component for municipal health services and an explicit sub-component for the firefighting function** in the local government equitable share formula.
 - Develop an objective criterion which municipalities can be benchmarked against in relation to their administrative functions** and explore policy options related to financing infrastructure in small and rural municipalities.

4.1.2 Re-enforcing improved intergovernmental relations in the 2023 Division of Revenue Bill, (DORB)

- In order to strengthen the system of good intergovernmental relations as envisaged in the Chapter 3 of the Constitution and subsequent related legislation, municipalities are reminded of Section 31(3) of DoRA that provides for the facilitation of personal liability for unnecessary litigation.
- Section 31 is amended to include a clause that requires that where an organ of state decides to institute judicial proceedings against another organ of state, it must, within 10 working days of its decision, notify the National Treasury, the relevant provincial treasury, the Department of Cooperative Governance and the Auditor-General, of the details of compliance with Chapter 4 of the Intergovernmental Relations Framework Act, 2005, including an explanation of the failure to resolve the dispute.

4.1.3 Conditional Grants Usage and transfers to municipalities

- Conditional grant funds may only be used for the purposes, and subject to the conditions specified in the framework for each conditional grant.
- These conditions are binding in terms of sections 11 and 12 of the annual Division of Revenue Act. Any instruction by a municipal, provincial, or national official or politician that is inconsistent with the framework of a conditional grant is invalid.
- Municipalities are reminded that in terms of section 32 of DoRA, spending of a grant that is inconsistent with DoRA is considered irregular or unauthorised expenditure.
- To assist municipalities with the criteria for the equitable share release for 2023/24, municipalities are to follow the guiding checklist provided by NT (in MFMA Circular No. 123). This checklist can be followed throughout the year to ensure that all documents are uploaded to the GoMuni platform. Municipalities will also be required to submit the completed checklist as part of the quarterly performance reporting process for quarter 1 of the financial year. By including the completed checklist in the report, municipalities confirm their adherence to the equitable share release criteria including that all supplementary information has been submitted onto Go-Muni.
- Section 21 of the Division of Revenue Act, 2022 (Act No.5 of 2022) (DoRA) in conjunction with the Division of Revenue Amendment Act, 2022 (Act No. 15 of 2022) (DoRA) requires that any conditional allocation or portion thereof that is not spent at the end of the 2022/23 financial year reverts to the National Revenue Fund (NRF), unless the rollover of the allocation is approved in

terms of subsection (2). Municipalities should therefore refer to NT Circular MFMA No. 123 for the list of information to include when requesting a rollover in terms of section 21(2) of the 2022 DoRA and for information on cases where NT may decline an application.

- NT must first see that the unspent allocations are committed to identifiable projects for the funds to be rolled over. Furthermore, if National Treasury receives the application after 31 August 2023, the application will be declined. Additionally, no rollover requests will be considered for municipalities with vacant or acting CFOs and MMs for a period exceeding 6 months from the date of vacancy.

4.2 The Revenue Budget

4.2.1 Setting cost-reflective tariffs

The basis of compiling a credible budget includes the setting of cost-reflective tariffs. The setting of cost-reflective tariffs is a requirement of Section 74(2) of the Municipal Systems Act to ensure that municipalities set tariffs that enable them to recover the full cost of rendering the service. Guidance for the setting of cost-reflective tariffs are as follows:

- Municipalities are advised to balance full cost recovery on services with affordability for residents. National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other consumers while ensuring the financial sustainability of the municipality. If the municipality's initial tariff calculation results in high increases to facilitate cost-reflectiveness, it is recommended that such are phased in over 3 to 5 years. The municipality's strategy in this regard should be included as part of the budget narratives.
- Where the full increase in the cost of a service is not passed onto consumers, municipalities must offset the increased costs through savings identified elsewhere in their operations. While municipalities are urged to maximise efficiency in their operations, tariff setting efforts should consider the need to make additional provision for repairs and maintenance associated with infrastructure breakdowns during loadshedding. Municipalities are cautioned against setting tariffs that include operating inefficiencies as this could lead to tariffs becoming unaffordable to consumers. Municipalities are encouraged to set two-part tariffs, that include a basic availability charge to recover the fixed (direct and indirect) cost associated with the service in conjunction with consumption-based tariff bands, where possible.
- As communicated in MFMA Circulars (122:13 and 123:10), with effect from the 2023/24 MTREF, all municipalities (except metropolitan cities, and district municipalities that do not provide any services) as part of both the tabled and adopted MTREF submissions, must submit the completed National Treasury Tariff Tool (in excel format); illustrating that the revenue component of the budget is credible and funded and that the municipality's tariffs are cost reflective.
- The completion of the National Treasury tariff Tool will assist in setting tariffs that are cost-reflective and enable a municipality to recover costs to fulfil its mandate. A key aspect of the funding allocation criteria is the assessment whether the Municipality completed the "National Treasury Excel Tariff Tool uploaded to GoMuni with the adopted budget by the start of the budget year i.e. 1 July 2023". A key success factor is that every municipality fully embrace the Municipal Standard Chart of Accounts (mSCOA), costing component.
- Flowing from the above, municipalities are requested to provide Provincial Treasury with an update regarding the process of cost reflective tariff setting; and more specifically how the municipality has adopted and populated the National Treasury Tariff Tool (in excel format) to date, prior to the SIME engagements.

- Based on the deliberations in the Budget and the In-Year Monitoring (IYM) Workshop (held 13 January 2023) as well as the presentation by the Budget and Revenue Advisor of National Treasury, the resolution was that Municipalities phase in the implementation of the Tariff Tool and fill in the Revenue and Expenditure Tabs in the National Treasury Tariff Tool, factoring in also the populating of the Surplus and Revenue Required Tabs. The presentation by National Treasury regarding the Standardised Tariff Setting Tool Presentation can be found [here](#).

4.2.2 Tariff setting – the impact of loadshedding

Municipalities are advised to take account of the impact of loadshedding and the loss of customers on both on the expenditure and revenue side of the budget and rebalance their expenditure and revenue budgets accordingly. Municipalities need to adequately plan and prioritise funding in its 2023/24 MTREF budget for this purpose, taking cognisance of the following:

- Bulk purchases represent approximately one third of municipal expenditure. Due to the prolonged energy crisis which resulted in continued loadshedding, electricity demand by businesses and households has been curtailed. As municipalities are selling electricity at a mark-up, the resultant revenue from lower electricity purchases is expected to be significantly less. The announcement by the Minister of Finance that individuals may claim up to R15 000 rebate personal income tax for the 2023/24 tax year on the acquisition of solar panels up R60 000 will mean that many wealthier individuals may switch to solar PV panels for electricity. This will further reduce electricity demand and sales.
- Municipalities are advised to prioritise the maintenance and refurbishment of their electricity networks to prevent any further disruptions in electricity supply in addition to loadshedding. In this regard, municipalities are advised to synchronise the maintenance schedules of their electricity networks with that of their local loadshedding schedules.
- Apart from negatively affecting electricity services, loadshedding also impacts municipalities' ability to pump water, which negatively affects the stability of water supplies and related functioning of the wastewater reticulation network. NT recommends that back-up electricity to pump water be prioritised while remaining mindful of affordability, the availability of funding sources and other critical expenditure priorities. The Western Cape Government has availed R88 million to assist municipalities with the acquisition of back-up generators for this purpose in the 2022/23 financial year.
- The blocking of electricity purchases via prepaid meter sales or recovering of portions of outstanding debt through electricity prepaid purchases have traditionally been an effective credit control mechanism. Municipalities can therefore expect a rise in outstanding consumer debt as the demand for electricity drops. Municipalities are therefore advised to explore alternative and innovative credit control methods.
- Municipalities should carefully monitor their Eskom accounts for any penalties that result from increased demand immediately after a period of loadshedding is ended. Additionally, municipalities must factor in the fact that Eskom will reverse penalties for exceeding notified maximum demand that results from loadshedding when calculating tariffs. This will ensure that consumers are not overcharged.
- A load-shedding levy or surcharge may only be introduced with the approval of the Minister of Finance and in terms of legislative processes set out in the MFMA and the Municipal Fiscal Powers and Functions Act, 2007.

4.2.3 Eskom Debt Relief

The debt relief for Eskom announced by the national Minister of Finance includes a pass on of relief to municipalities with arrear amounts owed to Eskom. Municipal Debt Relief will be conditional and application based. The relief is aimed to correct the underlying behaviour and operational practices in defaulting municipalities and Eskom while, in parallel, progressively introducing a smart metering solution to change consumer behaviour by reinforcing a culture of payment for services. The initial proposal from National Treasury consists of 4 elements:

- Eskom will write-off all debt municipalities owe as on 31 March 2023 (excluding the March 2023 current account). This will be done over three national financial years and require as a critical qualification that municipalities honour their current (monthly consumption) Eskom and water accounts going forward and maintain a minimum average quarterly collection;
- Secondly, new mechanisms are explored to resolve non-payment – this to include a dispute Ombud mechanism and re-assigning the license of persistent defaulters;
- Thirdly, Eskom will continue to implement a regime of installation of pre-paid meters in Eskom supplied areas to improve Eskom collection. Municipalities are additionally encouraged to adopt a similar operating regime; and
- Lastly, the National Treasury will continue to implement municipal revenue enhancement initiatives, including a transversal tender for a smart pre-paid meter solution to change to a forward-looking culture of payment of the consolidated municipal bill.

More details on the application process and related conditions for municipalities will soon be outlined and published through a separate MFMA Circular issued by National Treasury. The application process is likely to focus on ensuring the sustainability of future payments to Eskom so that municipalities do not fall behind on payments in future.

Furthermore, municipalities must ensure that structural deficiencies within the electricity trading service are addressed to ensure that municipalities that benefit from the debt relief do not relapse and default on the Eskom payment obligations.

There are currently four (4) municipalities in the Western Cape are eligible to potentially benefit from this debt relief. Provincial Treasury will engage directly with these municipalities as more information becomes available on the application process and how to manage payments under existing arrear agreements while applying for relief. NT MFMA Circular No. 123 is clear that in all circumstances municipalities must pay their current accounts timeously.

4.3 Additional Budget Considerations:

The matters discussed below are noteworthy considerations to be taken into account in the finalisation of municipalities tabled budgets:

4.3.1 Eskom Bulk Tariff Increases

The National Energy Regulator of South Africa (NERSA) is responsible for the price determination of the bulk costs of electricity. The following guidelines should be taken into consideration:

- In January 2023, NERSA approved tariff increases of 18.7 per cent in 2023/24 and 12.7 per cent increase in 2024/25. For purposes of calculating the free basic energy subsidy in the local government equitable share formula, the National Treasury has added 2 per cent to these increases. This was provided in anticipation of higher increases for municipalities than those published in January due to the difference in the financial years of Eskom customers and

municipalities. However, the actual bulk tariff increase for municipalities is slightly lower, meaning that the subsidy in the equitable share has received an above-cost increase.

- R1.1 billion is added to the free basic energy subcomponent of the free basic services component of the local government equitable share formula to fund these higher tariff increases. To this end, the free basic electricity subsidy in the local government equitable share is calculated based on a 20.7 per cent tariff increase in 2023/24 and a 14.7 per cent increase in 2024/25. In the absence of an approved tariff increase in the outer year of the MTEF period, the formula assumes an increase of 17.7 per cent in 2025/26. This is the average of the estimated increases for the first two years of the MTEF period.
- The National Energy Regulator of South Africa (NERSA) released its guideline for municipal tariff increases on 16 March 2023. NERSA approved an increase of 18.49 per cent for municipalities for the 2023/24 financial year and approved an average tariff increase of 18,65 per cent for Eskom's standard tariff customers. Municipalities will realise a lower increase of 18.49 per cent, because in the first three months (April to June) of Eskom's financial year, they will not experience an increase due to the municipal financial year commencing on 1 July. A lower tariff for municipalities is possible if there was an over-recovery in the period from April – June based on the previous approved increase.
- NERSA has now clarified the bulk tariff increase that municipalities will pay for 2023/24, but they must still publish the guideline for determining the tariff increases that municipalities can apply to their customers. Municipalities will need this information to be able to complete their budgets. It is hoped that the guideline is published shortly. If it is not, Municipalities are advised to use the assumptions from the guideline for 2022/23 and make clear in their budget documents that the final electricity tariff increases will be adjusted to align with the final NERSA guideline tariff increases.
- The table below illustrates examples of how the 2022/23 NERSA guideline could be used to calculate estimated tariff increases for municipal customers. In both examples the tariff increase is in the region of 15 per cent. NERSA may make other changes and are likely to update the "contribution" shares of different costs, so Municipalities are warned that the guideline increase will differ from the examples below. However, these examples are provided to give municipalities a ballpark indicator of likely increases in the absence of a published guideline.

	2022/23 NERSA Guideline			Example 1 2023/24 (only updating bulk cost)		Example 2 2023/24 (updating bulk cost and CPI)	
	Contribution	% increase	Guideline	% increase	Guideline	% increase	Guideline
Bulk purchases	74.0%	8.61%	6.37%	18.49%	13.7%	18.49%	13.7%
Repairs and maintenance	8.9%	4.40%	0.39%	4.40%	0.4%	5.30%	0.5%
Salaries	3.8%	4.40%	0.17%	4.40%	0.2%	5.30%	0.2%
Finance costs	2.1%	2.00%	0.04%	2.00%	0.0%	2.00%	0.0%
Bad debts provision	3.9%	4.40%	0.17%	4.40%	0.2%	5.30%	0.2%
Charges from other municipal departments	1.8%	4.40%	0.08%	4.40%	0.1%	5.30%	0.1%
General expenditure	5.5%	4.40%	0.24%	4.40%	0.2%	5.30%	0.3%
			7.47%		14.78%		14.99%

Source: Provincial Treasury, own calculations

4.3.2 Cost Containment

Provincial Treasury has observed a wide range of innovative cost containment practices being implemented by municipalities, reflecting a notable shift in the way cost containment has conventionally been perceived. Initially, it was purely a process of cost elimination to relieve budget pressures associated with the constrained fiscal environment. Municipalities are now starting to acknowledge cost containment as a dynamic and reflective process that aims to achieve greater operational efficiencies in the medium to long term. These innovations, as noted by PT through the various in-year monitoring processes and consideration of municipal cost containment reports, can broadly be categorized as follows:

Elimination	Conventional cost containment approach whereby all non-essential and nice-to-have expenses are reduced. Includes investigating and removing duplicate or redundant functions.
Adaption	Cost saving opportunities associated with the new-way-of-work. Examples include flexible operating hours that reduces the need for overtime; having online engagements to reduce travel and subsistence; hybrid working arrangements; shift systems to reduce overtime etc.
Bundling	Combining services to reduce costs. Typical example would be to make use of a single service provider for certain important business functions, shared service model.
Automation	Significant efficiency made by automating certain business processes. However capital intensive and can lead to job redundancies, increased training costs etc.
Optimisation	Identifying and reviewing case, project and process workflows to remove bottlenecks, and promote system integration. Gains from optimisation and automation can also be realized through attrition of staff, if efficiency gains can be used to reduce the need to replace staff when they leave the municipality.
Substitution	Exploring more cost-effective alternative goods and services (maximise value for money) without compromising service level standards.
Repurposing	Transforming, adapting or redeploying certain strategic assets at the end of its original life cycle to fulfil another purpose. This will reduce the need for complete replacement of existing tools, technologies and even processes.
Deferment	Strictly applies to non-essential goods and services only. Municipalities should under no-circumstances defer financial obligations or repairs and maintenance. Examples include holding off on non-mandatory training and refurbishment or upgrading of administrative and community facilities.

- While cost containment in the above context is an ongoing process, municipalities are reminded of the requirement to set clear and quantifiable targets as part of its cost cutting commitments. Over the last financial year, Provincial Treasury has noted a marked regression in the submission of the quarterly Municipal Cost Containment Regulations (MCRR) (2019) reports. Municipalities are advised to timeously adhere to the MCCR reporting requirements and where possible, incorporate the quarterly disclosure reports as part of the reports submitted in terms of S52 of the MFMA. Provincial Treasury will henceforth take a more critical view of the information reported by municipalities to ascertain whether underspending is being passed off as a saved cost.
- Provincial Treasury is aware of the need for a differentiated cost containment approach for each municipal category and will continue to work closely with National Treasury to review the existing Regulations. Municipalities are however in the interim requested to consider and apply innovative cost containment measures and report in line with MFMA Circular No.82 (2016) and the MCCR (2019).

4.3.3 Cost Drivers

While there is an immediate need to safeguard municipal revenue streams that are directly impacted by the effect of loadshedding on consumer consumption patterns, it is equally important for each municipality to critically review the cost drivers within its expenditure framework ahead of the tabling of the 2023/24 budget. Some of the most prominent expenditure drivers to be considered as part of a municipality's budget assumptions are as follows:

- *Provision for indigent households:* The constrained fiscal environment, including high levels of food price inflation and rising interest rates, continues to impact heavily on disposable household income. Households are reducing discretionary spend to afford necessities. Some reduction in spending on consumption of trading services should be expected. However, the larger impact on municipal budgets is likely to come from an increase in indigent household applications and municipalities should anticipate this and provide for the cost in their budget.
- *Increase in fuel prices:* While fuel price inflation has slowed between December 2022 and January 2023, a year-on-year comparison reveals a 13.1 per cent increase from January 2022. Geo-political uncertainty persists (notably the Ukraine/Russian war) which does leave fuel prices susceptible to ongoing fluctuations. That said, the decision to not increase fuel taxes in the national budget provides a measure of relief to consumers. Fuel is a major cost driver for municipalities in general, but additional provision needs to be made for fuel costs associated with alternative power solutions (such as generators). Municipalities are advised to provide for at least the volumes of fuel that have been consumed monthly for additional generator usage since loadshedding escalated in December 2022.
- *Repairs and Maintenance:* It is crucial that municipalities continue to make adequate provision for the routine care and upkeep of assets to prevent breakdowns and service delivery disruptions. Such provision must be in line with the national norm of 8 per cent of the asset value of Property, Plant and Equipment. Municipalities need to also make additional provision within their operating budget for repairs and maintenance associated with network breakdowns resulting from loadshedding (most notably, electricity and water breakdowns).

At the recent TIME engagements, municipalities expressed the concern that loadshedding does not only result in the additional need for repairs and maintenance, but in certain instances causes the complete breakdown/failure of electricity and water assets. As many of these assets were not soon due for replacement or renewal, no provision for their replacement would have been made in the MTEF budget. Municipalities should consider increasing their capital replacement reserve contribution to provide for such asset replacement and renewals. This would recognise that the need for replacement or renewal of these assets is likely to be required much earlier than originally planned.

Additional costs associated with the increase in repairs and maintenance efforts include, but are not limited to, a significant increase in overtime; the use of sub-contractors; as well as inventory consumed. Municipalities must ensure that adequate provision is made in the budget for these specific line-items as part of the repairs and maintenance function.

- *Contracted services:* Due to the technical nature of electrical technology, municipalities are expected to make use of skilled and experienced consultants and service providers to assist with the transition to renewable energy sources. Leading industry experts are currently advising the WCG on this subject and the learnings applicable to local government will be shared with municipalities. Municipalities must carefully manage the use of consultants in line with the MCCR and are advised to consult either Provincial Treasury or the Municipal Energy

Resilience (MER) team of the Western Cape Government before making any long-term commitments relating to energy procurement or advisors.

- **Security services:** As loadshedding intensifies, municipalities are reporting an increase in illicit activities, especially in terms of theft and vandalism affecting municipal assets. Municipalities should thoroughly review the impact of crime on its asset base ahead of the new financial year and where needed, make sufficient provision to safeguard property, plant and equipment.

4.4 Capital Budget Spend and Borrowings

Infrastructure investment has been identified as a key driver of economic growth. The 2023 Overview of Provincial and Municipal Infrastructure Investment 2023 notes that municipalities and Provincial departments in the Western Cape budget for almost the same levels of infrastructure investment, with municipalities budgeting for a total of 11.8 billion in capital spending in their 2022/3 original budgets, compared to the R11.6 billion in the Province's 2023/24 budget. However, in-year monitoring reports consistently note that municipalities struggle to spend their full capital budgets and this underperformance is confirmed in the annual financial statements. Improving capital spending is a key priority for enabling economic growth and will be an important focus of the SIME engagements this year. Municipalities need to plan for an appropriate capital funding mix and then ensure that they put in place appropriate project preparation and procurement planning to be able to deliver on their planned capital spending.

The update to the National Policy Framework for Municipal Borrowing and Financial Emergencies was approved on the 17 August 2022. The Policy Framework is accessible at this [link](#). Key reforms introduced in this regard include:

- Measures to expand the scope of responsible municipal borrowing and create the environment for more players (e.g. insurers, pension funds, institutional investors, fund managers and international Development Finance Institutions) to take part in the municipal debt market. In particular, the participation of private and public sector market participants in the development of a liquid secondary market for municipal debt securities is encouraged. This is incorporated while ensuring that the core principles underlying municipal borrowing are maintained, namely that credit worthy municipalities should borrow responsibly to finance capital investments whilst confirming that there will be no bailouts by provincial or national government as stipulated in section 51 of the MFMA.
- Clearer definition of the role of Development Finance Institutions (DFIs) to ensure that their lending does not crowd out the private sector. DFI's are encouraged to pursue clear and agreed upon developmental goals and public-sector lenders should be guided by social and developmental investment approaches where social outcomes are considered alongside potential financial returns.
- The updated policy allows for and clarifies innovative infrastructure financing mechanisms (such as pooled financing mechanisms, project finance, tax increment financing, revenue bonds and pledging of conditional grants) that municipalities can use to leverage municipal borrowing.

4.5 Municipal Standard Chart of Accounts (mSCOA)

Version 6.7 of the mSCOA chart is now live and all tabled budget data strings can be uploaded on the GoMuni portal. Please note the following:

- NT will regulate the minimum business processes and system specifications for mSCOA by the end of 2024/25. A new transversal tender for the provision of ERP financial systems that complies with these regulations will be put in place once the regulations have been issued. Municipalities are cautioned against changing financial systems at this stage, as fruitless and wasteful expenditure may be incurred should the procured financial system not comply with regulations. Additionally, any intention to replace the financial system currently operating needs to be communicated to NT and PT before any proposals from system providers are received. See MFMA Circular No. 123 for information on what the submission to the relevant Treasuries should include, which should be forwarded to lgdocuments@treasury.gov.za for a response.
- The MFMA and its Regulations require the submission of mSCOA data strings for budgets, in-year reporting, and annual financial statements in a specific format and by a required timeframe. The credibility and accuracy of the mSCOA data strings must be verified by municipalities prior to submission to the GoMuni Upload portal. Since the financial system must be locked at the end of the month in order to generate a mSCOA data string, municipalities may not open closed periods to correct errors. Errors must be corrected in the next open period. Providers of municipal financial systems must ensure that the necessary internal controls are built into the system to prevent the opening of closed periods on the financial system and the bypassing of such controls. This also applies to the correction of information in closed periods for 3rd party systems that should be integrating with the main financial system in terms of the requirements of the mSCOA Regulations.
- From 1 July 2023, the schedules populated from the mSCOA data strings on NT's Local Government and Reporting System will need to be signed off monthly for audit purposes. This serves as the municipality's confirmation that the data strings submitted are accurate. Additionally, the GoMuni Upload portal for the monthly in-year data strings will be closed at 16h00 on the 10th working day of each month. No data string submissions will be accepted by NT after that.

5. 2023/24 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 2023) 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 draft IDP tabled by the mayor for public participation. The municipal council only has the legal authority to consider a tabled budget and draft 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 tabled 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 municipality's draft IDP has not been completed.

5.2 Failure to Table Draft Budgets and IDPs by End March 2023

If a municipality has failed to complete the relevant processes applicable for the review and revision of the annual budget and the compilation of an 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 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 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 (MBRR). In addition to the requirement to inform the MEC of impending non-compliance with the MFMA, mayors and accounting officers are requested to inform PT should they have reasons to believe that their municipality's budget might not be tabled/approved timeously due to dynamics in council. This will enable PT to engage with municipal officials to prepare for any possible action (including in terms of 139(4) of the Constitution) that may be required if a budget is not adopted.

In the event of actual non-compliance by a municipality with time provisions concerning the annual budget, the mayor must inform council, the MEC for Finance and NT, in writing, of such non-compliance and any remedial action or corrective measures the municipality intends to implement. Such a notification must be done in accordance with section 63 and Schedule G of the MBRR.

Municipalities are cautioned that any delay to table the budget in terms of section 16(2) of the MFMA could compromise the ability to approve the budget before the start of the financial year as required by section 16(1) of the MFMA. Failure to approve the budget before the start of the financial year will automatically invoke the provisions of sections 25(1) and 55 of the MFMA. Should a municipality not approve the budget by the start of the new financial year, the provincial executive MUST intervene in terms of section 139(4) of the Constitution by taking any appropriate steps to ensure that the budget or revenue-raising measures are approved. These steps include, but are not limited to, dissolving council and appointing an administrator and approving a temporary budget or revenue raising measures to provide for the continued functioning of the municipality.

Municipalities are kindly requested to communicate any changes to the confirmed tabling dates (as it appears in **Annexure A** to PT via Tania.Bosser@westerncape.gov.za by **27 March 2023**.

5.3 Submitting budget documentation and schedules for 2023/24 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 NT and the relevant provincial treasury. If the annual budget is tabled in council on 31 March 2023, the **final date of submission of the electronic budget documents and corresponding mSCOA data strings is Friday, 1 April 2023**.

Section 24(3) of the MFMA, read together with regulation 20(1) of the MBRR, requires that the approved annual budget must be submitted to both National Treasury and the relevant provincial treasury within ten working days after the council has approved the annual budget. However, given that municipalities are generating the annual budgets directly from the financial system as required by the mSCOA Regulations and that the budgets must be verified before it is locked on the financial system and transacted against, municipalities must submit the approved budget to NT and the relevant provincial treasury in electronic formats **immediately** after approval by the municipal council. Therefore, if the annual budget is tabled to council **on 31 May 2023**, the final date of submission of the electronic budget documents and corresponding mSCOA data strings is **Wednesday, 1 June 2023**.

The accompanying document submission checklist (**see Annexure B**) provides a list of the documentation required by Provincial Government. Electronic budget and IDP related documents must be provided in PDF format. The designated municipal official needs to complete and sign the accompanying checklist (**Annexure B**) as confirmation that the set of budget, IDP and related documents have been submitted.

Municipalities should note that NT will no longer accept submissions by email, NT will now only accept uploads via the GoMuni portal. The development work on the GoMuni Upload portal has been concluded and municipalities must submit all documents required for the 2023/24 MTREF in terms of legislation, as per the guidance provided in MFMA Circular No 122 (2022), via the **GoMuni Upload Portal**. The upload portal can be accessed on <https://lguploadportal.treasury.gov.za> from 1 April 2023. All municipal officials that currently have access to the LG Upload portal will be granted access to the GoMuni Upload portal. New users will have to complete and submit a Request for Access to lgdataqueries@treasury.gov.za. The request form will be available on the GoMuni login page under New Registrations.

Municipalities must also 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 **Annexure C**. Provincial Treasury will engage further with NT and municipalities to establish whether in future it is feasible for documentation to only be uploaded to the GoMuni portal. At present, municipalities are still required to separately submit all documentation to PT (as required in the MFMA chapter 4 (22)(b)).

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
MFMA Co-Ordination	Dian Cronje	021 483 0390	Dian.Cronje@westerncape.gov.za
Public Finance	Isaac Tsie	021 483 6241	Isaac.Tsie@westerncap.gov.za
	Thobelani Ntshingila	021 483 6100	Thobelani.Ntshingila@westerncape.gov.za
Budget Office	Nadia Rinqest	021 483 8692	Nadia.Rinqest@westerncape.gov.za
	Kim Engel	021 483 8459	Kim.Engel@westerncape.gov.za
Fiscal Policy	Malcolm Booysen	021 483 3386	Malcolm.Booyesen@westerncape.gov.za
Cash Management	Anthea Paries	021 483 5472	Anthea.Paries@westerncape.gov.za
Accounting	Faez Salie	021 483 4252	Faez.Salie@westerncape.gov.za

Municipalities may also contact the following officials at NT for assistance.

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

5.4 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.

5.5 Strategic Integrated Municipal Engagement (SIME) Process

Integrated planning and budgeting focusses on strengthening the alignment of planning and budgeting in the Province, and places emphasis on enhancing the provincial and local government interface. The SIME engagements, which takes place in May 2023, precedes the approval and implementation of municipal budgets. The engagements afford the WCG the opportunity to provide feedback on its assessment of the municipal planning and budgeting efforts for the upcoming financial year and for the 2023 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. The assessment of the tabled IDPs will be undertaken by the Department of Local Government, in close contact 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 SIME engagements will primarily focus on strategic issues emanating from municipalities' draft IDPs and tabled annual budgets to gear municipalities for sustainable growth and development.

The overall objectives of the 2023/24 SIME process and the key messages therefore emphasise:

- **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 across all spheres of government;

- **Identification of areas that require support** as well as opportunities for collaboration and partnerships.

The 2023 SIME engagements are planned to be in person. Confirmation of the arrangements will be confirmed individually with each municipality.

- The SIME engagements are provisionally scheduled to take place from 17 April 2023 to 17 May 2023, subject to confirmation from the municipalities. PT is currently in communication with each Municipality to confirm the date and time of each of the engagements.

6. CONCLUSION

Municipalities should consider and apply the contents of this budget circular in the 2023/24 planning and budgeting process.

Please direct any queries regarding this circular to Nadia Rinqest at:
Nadia.Rinqest@westerncape.gov.za.

MR D SAVAGE
HEAD OFFICIAL: PROVINCIAL TREASURY

CONFIRMED 2023 BUDGET TABLING DATES

Municipality	Confirmed date
City of Cape Town	Wednesday, March 29, 2023
Matzikama	Tuesday, March 28, 2023
Cederberg	Friday, March 31, 2023
Bergervier	Tuesday, March 28, 2023
Saldanha Bay	Thursday, March 30, 2023
Swartland	Thursday, March 30, 2023
West Coast District Municipality	Wednesday, March 29, 2023
Witzenberg	Tuesday, March 28, 2023
Drakenstein	Friday, March 31, 2023
Stellenbosch	Wednesday, March 29, 2023
Breede Valley	Tuesday, March 28, 2023
Langeberg	Tuesday, March 28, 2023
Cape Winelands District Municipality	Thursday, March 23, 2023
Theewaterskloof	Wednesday, March 29, 2023
Overstrand	Wednesday, March 29, 2023
Cape Agulhas	Friday, March 31, 2023
Swellendam	Thursday, March 30, 2023
Overberg District Municipality	Monday, March 27, 2023
Kannaland	Friday, March 31, 2023
Hessequa	Wednesday, March 29, 2023
Mossel Bay	Thursday, March 30, 2023
George	Thursday, March 30, 2023
Oudtshoorn	Friday, March 31, 2023
Bitou	Friday, March 31, 2023
Knysna	Friday, March 31, 2023
Garden Route District Municipality	Tuesday, March 28, 2023
Laingsburg	Thursday, March 30, 2023
Prince Albert	Friday, March 31, 2023
Beaufort West	Friday, March 31, 2023
Central Karoo District Municipality	Friday, March 31, 2023

DOCUMENT SUBMISSION CHECKLIST FOR THE 2023/24 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 6.7** of Schedule A1 and **drawn directly from the municipal financial system**.

The Integrated Development Plan as set out in Section 25, 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, SA14, SA22, SA23, SA24 and any information not contained in the financial data string, in the A1 in the prescribed mSCOA data string in the format published with Version 6.7 of the A1 schedule			
Draft Service Delivery and Budget Implementation Plan			
Procurement Plan			
Draft Service Level Standards			
Signed Quality Certificate as prescribed in the MBRR			
D Schedules specific for the entities (where applicable)			
The bulk water- and electricity invoices for the 3 months immediately preceding the tabled budget, must be included as an annexure to the tabled budget as part of supporting the municipalities provision for and calculations of payments to bulk suppliers over the 2023/24 MTREF			
National Treasury tariff tool (in excel format) As per MFMA Circular 122 page 10, with effect, from the 2023/24 MTREF, all municipalities (except metropolitan cities and district municipalities that do not provide any services) as part of both the tabled and adopted MTREF submissions must submit the completed National Treasury tariff tool (in excel format) illustrating that the revenue component of the budget is credible and funded and that the municipality's tariffs are cost reflective. If the municipality's initial calculation results in high increases to facilitate cost-reflectiveness, it is recommended that such are phased in over 3 to 5 years. The municipality's strategy in this regard should be included as part of the budget narratives.			
Budget Related Policies			
Information on any amendments to budget related policies			
Suite of budget related policies			
Long Term Financial Plan			

Budget Documentation	Yes	No	N/A
IDP and Related Documentation			
Council Resolution in terms of the tabled amended IDP			
Proposed amendments to the IDP			
The memorandum referred to in Regulation 3(2) of the Local Government: Municipal Planning and Performance Management Regulations of 2001			
A copy of the predetermined programme, in light of the requirements of section 29(1) of the Municipal Systems Act 32 of 2000, which the municipality is utilizing to guide the process for the drafting, consideration and adoption of the proposed IDP Amendment			
Spatial Development Framework			
<i>Council Resolution in terms of the adoption of the Spatial Development Framework</i>			
Applicable Disaster Management Plan			
<i>Council Resolution in terms of the adoption of the Disaster Management Plan</i>			
Integrated Waste Management Plan			
<i>Council Resolution in terms of the adoption of the Integrated Waste Management Plan</i>			
Air Quality Management Plan			
<i>Council Resolution in terms of the adoption of the Air Quality Management Plan</i>			
Coastal Management Plan (Coastal Municipalities only)			
<i>Council Resolution in terms of the adoption of the Coastal Management Plan</i>			
Biodiversity Management Plan (if relevant)			
Invasive Species Monitoring, Control and Eradication Plan			
Climate Change Strategy			
Human Settlements 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: _____

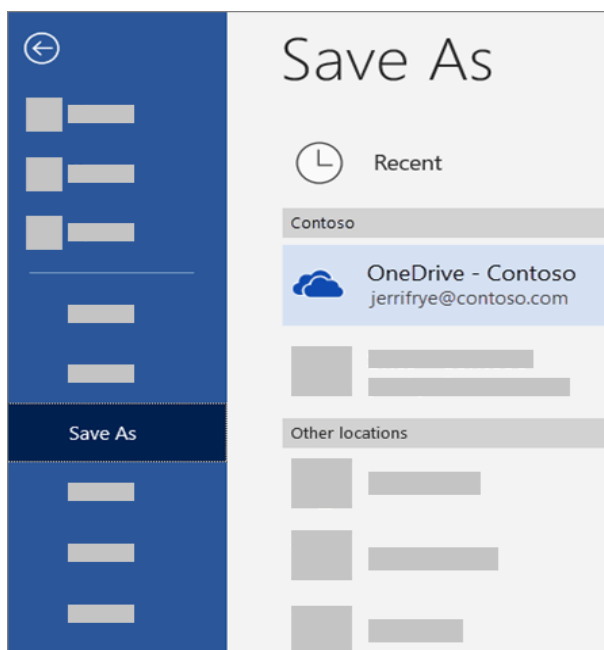
Date: _____

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 2023 Budget Documents) and place all the budget related documents within it.



2. 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.2023)
- Name of document submitted (e.g. Draft Budget, Draft IDP, Draft SDBIP etc.)

E.g.: DC1 2023 Draft Amended IDP

E.g.: DC1 2023 MTREF Main Budget

E.g.: DC1 2023 Draft SDBIP

NB! Please note the Dropbox option is blocked on the government network and the OneDrive option is to be utilised.

Enquiries: George Thomas
Tel: 012 369 8000
Fax: 012 369 8001
E-mail: gthomas@salga.org.za



Physical:
Block B, Menlyn Corporate Park,
175 Corobay Ave, Waterkloof
Glen Ext II, PRETORIA 0181
Postal: PO Box 2094,
PRETORIA 0001

CIRCULAR 17 / 2023

FROM : RIO NOLUTSHUNGU
CHIEF EXECUTIVE OFFICER (ACTING)
TO : EXECUTIVE MAYORS/MAYORS
: CITY/MUNICIPAL MANAGERS
DATE : 25 MARCH 2023

SALGA APPLICATION AGAINST NERSA TARIFF DECISION

1. Purpose of the Circular

The purpose of this Circular is to advise municipalities that SALGA is challenging the National Energy Regulator of South African's (NERSA) decision taken on 12 January 2023 to approve Eskom Holding SOC Limited's (ESKOM) MYPD5 application to increase tariffs for the 2023/2024 financial year by 18.65% and for 2024/25 financial year by 12.74% respectively, on the grounds that it is unconstitutional.

2. Background

Eskom applied in September 2022 for a 32% tariff increase for the 2023/24 financial year, starting in April 2023. NERSA published Eskom's revenue requirements (MYPD5) for the financial years 2022/23 – 2024/25 and requested comments. Following consultations with member municipalities, SALGA made a written submission to NERSA rejecting the proposed increases: in an economy where we are likely to see weak economic growth, with stagflation risks, high unemployment and rising prices, a price increase of more than 8 times inflation is unsustainable and unaffordable.

Amongst other factors SALGA cited that municipalities have a large proportion of clients who are mainly poor, and the increase will have a negative impact on the affordability of their clients. The submission further argued that should the proposed increase be approved, municipalities would be forced to apply for a high increase in July, given the impact of the increase on the cost of Bulk Electricity purchases. The effect of the increase is likely to result in clients opting to reduce their electricity usage drastically, including defection from the grid, which in turn would affect municipalities' revenue. Revenue collection would also be affected due to unaffordability.

SALGA also raised concerns about Eskom's performance and the need to undertake measures to cut costs and improve efficiency.

3. Legal Challenge

SALGA is bringing an application in terms of Section 38(e) of the Constitution of the Republic of South Africa, 1996 on behalf of its members, since NERSA's decision to approve an Eskom tariff hike by 18.65% and 12.74% impacts municipalities as both electricity distributors and as consumers.

Given the astronomical increase in the price of electricity in recent years, electricity has become expensive and unaffordable for many, with the resultant loss of revenue for municipalities. This loss of revenue is exacerbated by an increase in illegal connections due to unaffordable rates, end users going off the grid, loadshedding, and theft and vandalism to infrastructure. Ultimately, the loss of revenue stifles municipalities' ability to fulfil their constitutional obligations.

SALGA's application is brought in terms of the Promotion of Administrative Justice Act 3 of 2000 ("**PAJA**"), where the main grounds of review are that NERSA's decision is irrational and various relevant considerations were ignored when they made the decision. This is informed by section 15 of the Electricity Regulation Act No. 4 of 2006 ("**ERA**") which provides:

"15. Tariff principles-

(1) A licence condition determined under section 14 relating to the setting or approval of prices, charges and tariffs and the regulation of revenues –

- (a) must enable **an efficient licensee to recover the full cost of its licensed activities, including a reasonable margin or return;***
- (b) must provide for or prescribe incentives for continued improvement of the technical and economic efficiency with which services are to be provided;*
- (c) must give end users proper information regarding the costs that their consumption imposes on the licensee's business;*
- (d) must avoid undue discrimination between customer categories; and*
- (e) may permit the cross-subsidy of tariffs to certain classes of customers.*

(2) A licensee may not charge a customer any other tariff and make use of provisions in agreements other than that determined or approved by the Regulator as part of its licensing conditions.

(3) Notwithstanding subsection (2), the Regulator may, in prescribed circumstances, approve a deviation from set or approved tariffs."

In terms of Section 15(1)(a) above and particularly the methodology employed by NERSA, we are of the view that Eskom's efficiency or lack thereof directly impacts on any tariff increase approved by NERSA.

In addition, one of the objectives of a tariff according to the Electricity Pricing Policy (EPP), is that *'Price levels should assume an efficient and prudent utility, in other words prices should be based on least cost options and exclude inefficiencies'*.

Before approving a tariff increase, NERSA should have assessed Eskom's operational and financial efficiency and prudence. Without this assessment, it is not possible for NERSA to have taken efficiency and prudence considerations into account before approving a tariff increase.

We are also of the view that when taking the decision, NERSA failed to take into account or apply its mind to fundamental issues impacting Eskom's **efficiency and prudence** as required by Section 15(1)(a) of ERA. The theme of SALGA's application is thus **efficiency and prudence**.

In its reasons for the tariff increase decision, there is no indication that NERSA conducted a prudence assessment taking into account the fraud, corruption, fruitless and wasteful expenditure at Eskom. Consequently, NERSA failed to consider these matters when making the decision and this renders NERSA's decision as irrational and demonstrates a failure by NERSA to properly apply its mind. Having not conducted prudence and efficiency assessment also amounts to a contravention of the Multi-Year Price Determination Methodology Four (MYPD4), the Electricity Regulation Act, and the Electricity Pricing Policy.

There are various other considerations that NERSA did not take into account, such as the impact of load-shedding, the impact of sales by Independent Power Producers ("**IPP's**") to Eskom in terms of the sales forecast, amongst others.

4. Progress to date

SALGA's urgent application against NERSA, Eskom and other stakeholders that the NERSA decision taken on 12 January 2023 is unconstitutional and should be reviewed and set aside, has been filed with the Registrar of the Pretoria Urgent High Court and issued on the 13th of March 2023 and has been served on all interested respondents.

The SALGA legal team led by Adv. EC Labuschagne, SC, and Adv. V Mabuza are further informed that the matter is currently under the judicial case management of Judge Davis, who will be attending to the hearing of the urgent application. A practice directive had been issued by the Honorable Court setting out the timelines for parties to file further documents.

The consolidated application is set down for hearing in the High Court of South Africa ,Gauteng Division, Pretoria on the 5th,8th, and 9th of May 2023.

For any further enquiries relating to this circular, please contact **Mr. George Thomas, Senior Manager: External Legal Advisory Services** via email gthomas@salga.org.za or on 071 792 9637.

Yours Sincerely,



RIO NOLUTSHUNGU
CHIEF EXECUTIVE OFFICER (ACTING)



cooperative
governance

Department:
Cooperative Governance
REPUBLIC OF SOUTH AFRICA

Private Bag X804, Pretoria, 0001 | Tel: 012 334 0600 | 87 Hamilton Street, Arcadia, Pretoria | www.cogta.gov.za

Reference: 14/5/3/2/9_9/15

Enq: Tenda Maphaha

Tel: 012 334 0933

e-mail: mpira@cogta.gov.za

The Municipal Manager
Knysna Local Municipality (WC048)
(by email)

Attention: The Chief Financial Officer

LOCAL GOVERNMENT: MUNICIPAL PROPERTY RATES ACT, 2004: THE CURBING OF EXCESSIVE PROPERTY RATES INCREASES ON IMPLEMENTATION OF A NEW VALUATION ROLL

The Department of Cooperative Governance ("the Department") is responsible for the administration of the Local Government: Municipal Property Rates Act, 2004 ("the Act"). The Department must therefore monitor compliance with the Act and its regulatory framework and provide advisory support to municipalities regarding the implementation of the Act. To that end, the Department understands that your municipality will be implementing a new valuation roll on 1 July 2023.

The municipality's valuation roll was found to be partially compliant with the categorisation and rating of public service purpose (PSP) properties in the assessment of municipalities in terms of compliance with section 8 of the Act and the appropriate rating of public service purpose properties in the 2021/22 financial year. The municipality is advised to ensure full compliance with section 8 and the categorisation of public service purpose in the new general valuation. If the new valuation roll is not fully compliant, the municipality is advised to undertake supplementary valuations in terms of section 78 of the Act to ensure full compliance.

The submission of the certified valuation roll to the Municipal Manager triggers a number of processes in the Act that include the inspection of the valuation roll by property owners, the lodging of objections "in respect of any matter in, or omitted from, the (valuation) roll", the lodging of appeals against a decision of the municipal valuer regarding objections lodged. The alignment of the property rates budget to the new valuation roll is also a significant process that the municipality must undertake. General valuations tend to result in increases in the market values of properties, sometimes significant increases.

Significantly high increases in the market values of properties **require that the municipality reasonably reduces the cent in the Rand rates to curb excessive rates payable by property owners**. In this exercise, due consideration must be given to the property categories that are most impacted by significant increases in property market values when the current and the new valuation rolls are compared. This can be done in a revenue neutral way and still allow the municipality some room to increase its overall property rates budget. In fact, there is evidence that property rates revenues increase quite reasonably for municipalities that decrease the cent in the Rand rates for all categories of rateable properties in a way that protects property owners from excessive increases in rates payable in the year in which a new valuation roll is implemented.

The practice of reducing the cent in the Rand rates when a new valuation roll is implemented and where property market values increase significantly, must be institutionalised, and become best



Department of Cooperative Government / UMnyango Kahulumeni Wokubambisana / Lefapha la puso ya kopanelo / Departement van Samewerkende Regering / Litiko Lekubusa Ngekubambisana / Umnyango Wezokubusa Ngokuhlanganyela / Ndzawulo ya Mfumo wa Miganga / Lefapha la puso ea tšebeliso / ISebe lolawulo lwentsebenziswano / Muhasho wa Tshumisano na Mavhusele / Kgoro ya Pušo Tirišano

practice. The practice protects both the municipality and the ratepayers. It protects the municipality from having to deal with irate ratepayers and a negative impact on the municipality's rates revenue if ratepayers cannot afford the increases in rates payable.

Keeping the cent in the Rand rates constant for the categories of rateable properties the market values of which increased significantly will not protect the property owners from significant increases in the rates payable. In fact, the rates payable, which is the cent in the Rand rate multiplied by the market value of the property, will also increase in a scenario where the cent in the Rand rate is kept constant. **Rates payable will increase by exactly the amount by which the market value of the property increased.** Therefore, it is not sufficient to keep the cent in the Rand rate unchanged when property market values have increased significantly.

Municipalities are advised not to mislead communities by informing them that because the municipality will not increase the cent in the Rand rates for the year in which the new valuation roll will be implemented, their property rates payable will not increase. This is clearly not the case and property owners will be faced with the reality of the actual increases in rates payable when they get their first property rates accounts for that year. At that juncture, there will definitely be an outcry, which will prove difficult for the municipality to address because by then the financial year shall have started and/or the municipal council shall have approved the budget and all revenue raising instruments.

To minimise significant increases in the market values of properties on implementation of future new valuation rolls, **the municipality must ensure that during the lifespan of a valuation roll, supplementary valuations are done as and when occurrences that are catalysts for supplementary valuations occur.** These occurrences are in section 78(1) whilst the dates on which these occurrences become effective are in section 78(4) of the Act. If the municipality implements the provisions of section 78 of the Act regularly as provided for in section 78(4), significant increases in property values will be minimised when a general valuation of all properties is done. Section 78 is very useful because it allows the municipality to effect supplementary valuations in real time. For the municipality to implement the provisions of section 78 effectively changes that take place in properties must be closely monitored, and once identified, supplementary valuations must promptly be done and be caused to take effect as provided for in section 78(4).

Furthermore, **the longer the period of validity of the valuation roll is, the more significant the changes in the market values of the properties will be** because of the length of time between the two general valuations. Long periods of validity of valuation rolls that are also characterised by failure to do supplementary valuations regularly as and when there are occurrences that warrant these, compound the problem. The shorter the period of validity of a valuation roll where the municipality does regular supplementary valuations, the more likely it is that the increases in property values in the general valuation will not be significantly high on implementation of a new valuation roll.

The table below illustrates an extract from a small municipality's valuation roll showing the change in the aggregate market values of properties per property category from one general valuation roll to the next. To properly ascertain changes in market values of properties, **new property developments** arising from newly rateable properties, previously vacant properties that are improved (for example, into new shopping malls, etc.) and/or significant improvements to previously improved properties (for example a two bedroom house now having been expanded to a four bedroom house) were **isolated and excluded**. These were excluded because **their inclusion in the valuation roll causes the municipality's property rates base to expand exponentially. These additions to the municipality's valuation roll are what can be called a game changer or a windfall** from which a municipality will derive additional revenue from the dividends of local economic development and growth. To include these properties in the recommended analysis (modelling) is not necessary. Only properties that were in the valuation roll before the general valuation must be subjected to the exercise that is illustrated below.

All but one of the property categories' aggregate values increased. The aggregate increase in this municipality's valuation roll is 21%, whilst the most significant increases are found in the residential,

public service infrastructure, agricultural and mining property categories. These per category increases are 23%, 36%, 44% and 56% respectively. This means that the municipality should spend more time on these property categories when doing the exercise wherein the cent in the Rand rates is adjusted until the increases in the rates payable are reasonable and affordable. In doing this, the municipality must **generate rates payable scenarios of different properties within these property categories to ascertain the exact changes in rates payable**. In this exercise, the municipality must also take cognisance of how the impact on the rates payable by individual property owners or groups of property owners are affected by different cent in the Rand rates. The cent in the Rand rates that result in the most affordable and reasonable increases in property owners' rates payable should be determined through this exercise. Naturally, the increases in individual property values within a property category will vary from negligible to very significant.

Table 1: Extracts of changes in the Rand value of a small rural municipality's valuation roll

Categories	Valuation roll 1 (Rands)	Valuation roll 2* (Rands)	Difference	% Increase/decrease
BUSINESS	1 474 306 000	1 521 205 000	46 899 000	3,18
MINING	433 400 000	676 680 000	243 280 000	56,13
INDUSTRIAL	190 210 000	243 680 000	53 470 000	28,11
PUBLIC SERVICE PURPOSE	914 035 000	923 020 000	8 985 000	0,98
RESIDENTIAL	2 319 169 600	2 861 204 000	542 034 400	23,37
AGRICULTURAL	1 084 286 000	1 558 541 000	474 255 000	43,74
PSI	36 267 000	49 243 000	12 976 000	35,78
PBO	28 600 000	27 480 000	-1 120 000	-3,92
Total	6 480 273 600	7 861 053 000	1 380 779 400	21,31

*Valuation roll 2 is the new valuation roll

The Department is mindful of the fact that Knysna Local Municipality is entering the phase wherein the 2023/24 budget is being prepared for tabling in a municipal council. You are advised to ensure that the cent in the Rand rates per category of property are reduced appropriately for the 2023/24 financial year particularly where there are significant increases in property values, to curb excessive rates increases associated with the implementation of a new valuation roll. As alluded to above, higher market values should not be used to justify hikes in rates payable because it is common knowledge that the municipal Council has full control over the determination of the cent in the Rand rates per property category and should be appropriately advised by the relevant officials in this regard. It is better to manage this process carefully either prior to or after tabling of the budget for public participation so that the final budget to be approved by the municipal council will not result in unhappy ratepayers, disputes or litigations driven by high rates.

Yours Sincerely,



DR K NAIDOO

DEPUTY DIRECTOR-GENERAL: POLICY, GOVERNANCE AND ADMINISTRATION

DATE: 15/03/2023

cc: Head of the provincial department responsible for local government