

Northern Cape Provincial Government



NORTHERN CAPE PROVINCIAL TREASURY

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Date: 08 September 2020
Leshupelo:
Umhla:
Datum:

All Municipal Managers

Northern Cape Municipalities

GUIDANCE ON THE PROCESS FOR ADOPTION OF 2020/21 ADJUSTMENT BUDGETS AND RELATED MATTERS

The 2020 National Supplementary Budget was delivered by the Minister of Finance in Parliament on 24 June 2020. The 2020 Supplementary Budget responds to the COVID-19 pandemic and its impact on the economy. This includes the additional allocation for local government announced by the President to assist in funding COVID-19 expenditure. In terms of Section 28(2)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and Section 23(3) of the Municipal Budget and Reporting Requirements (MBRR), municipalities must adjust their 2020/21 MTREF budgets to account for the revised funding allocations that were made available. Also, municipalities should use this adjustment budget process to reprioritise the 2020/21 budgets to respond to the impact of the COVID-19 pandemic on the budgets.

Section 18 of the Municipal Finance Management Act, 2003 (Act No 56 of 2003), prohibits the adoption of an unfunded budget. Therefore, all municipalities who adopted unfunded budgets for the 2020/21 financial year must rectify their budgets through this process to ensure that the adjustment budgets are funded.

An unfunded budget is an indication that the financial plan adopted by the municipality is inadequate to give effect to the priorities identified by a municipality for a particular year. It is also a leading indicator of impending financial distress. Experience has consistently shown that municipalities who adopt unfunded budgets generally experience cash flow challenges during the implementation of the budget. Cash flow challenges manifest themselves in the inability of municipalities to pay creditors within the legislated period of 30 days, deliver services to residents and in severe cases an inability to cover the wage bill of the municipality. The MFMA recognizes that the onus rests with the municipality to resolve any existing or impending financial difficulties. This requires the Accounting Officer of the municipality to take all reasonable steps to

ensure that measures are instituted to rectify the situation. If the municipality is unable to satisfactorily resolve the issue, provincial intervention may be necessary.

To ensure that the adjustment budget process is achieved within the required timeframes, the following steps must be strictly adhered to:

- a) Municipalities **MUST** provide Provincial Treasury with confirmation of the planned dates for adoption of Adjustment Budgets by Council, this must be done via email **no later than Friday, 11 September 2020**. This is to ensure that municipalities are geared up to meet the due date for adoption of the Adjustment Budgets i.e. **on or before 30 September 2020**;
- b) Municipalities **MUST** submit their adjustment budgets to Provincial Treasury no later than **15 September 2020**. Provincial Treasury will do an assessment to check funding compliance, if the budget is found to be unfunded after an assessment the municipality will be requested to re-do the budget. The purpose of this process will be to assist municipalities in identifying and effecting the necessary changes to reflect a funded budget position. This will require the municipality to make hard but necessary expenditure and revenue choices, albeit unpopular; and
- c) Municipalities who are still unfunded after this process is undertaken will be required to ensure the cash flow presents a surplus for the current year – including fixed cost obligations (bulk suppliers –current account). The municipality must further compile a budget funding plan that shows how they intend moving from an unfunded to the funded position. It is crucial to ensure that these plans are realistic and achievable. The plan must be adopted in Council, together with the adjustment budget.

Municipalities are reminded that the adjustments budget data string for 2020/21 must be submitted in the format of an mSCOA data strings uploaded to the LG Upload Portal **within 10 working days** after the adjustments budget has been adopted by the Council. Furthermore, funding as well as an expenditure that pertains to COVID-19 must be recorded and ring-fenced through the Municipal Standard Chart of Accounts (mSCOA) as per the guidance provided in mSCOA Circular No. 9 that was issued on 9 June 2020. The conditional grant reports required in terms of the Division of Revenue Act must also be provided to the transferring Department and the National Treasury.

Should the municipality fail to comply with the requirements of this letter, the National Treasury will invoke Section 216 (2) of the Constitution which permits the Treasury to stop the allocation of funds to a municipality. Formal notification will be sent to each municipality who fails to adopt a funded adjustment budget informing them that the next tranche of the equitable share due on December 2020 will be withheld. The Provincial Treasury would like to avoid such punitive measures and encourages your municipality to comply with the requirements of this letter within the timeframes indicated above.

Please treat this matter with urgency and ensure that the above requirements are complied with. The required information should be sent to the district offices as follows:

Frances Baard District : tau4more@gmail.com

Namakwa District: m21beukes@gmail.com

ZF Mgcawu District: workncpt01@gmail.com

Pixley ka Seme District: rapuleng1972@gmail.com

John Taolo Gaetsewe District: karabokopang@gmail.com

In conclusion, Provincial Treasury has noted with great concern the persistent non – compliance by municipalities with the submission of the required information including monthly C-Schedules, mSCOA data strings and weekly COVID – 19 expenditure reports. Municipalities are reminded that Section 74 of the MFMA compels the Accounting Officer of a municipality to submit to the National Treasury, the Provincial Treasury, the department of local government in the Province, or the Auditor-General such information, returns documents, explanations and motivations as may be required. If the Accounting Officer is unable to comply with any of the responsibilities in terms of the MFMA, he or she must promptly report the inability, together with reasons, to the Mayor and the Provincial Treasury.

Your co-operation is highly appreciated.



B. MGAGULI

DIRECTOR: MUNICIPAL FINANCE, MFMA CO-ORDINATOR

DATE:08-09-2020