



PROVINCIAL TREASURY

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To: Municipal Managers
Chief Executive Officers Municipal Entities
Cc: Chief Financial Officers
Finance Officers Municipal Entities

**PROVINCIAL TREASURY MFMA CIRCULAR NO. 5: 2018/19 MID-YEAR BUDGET
AND PERFORMANCE ASSESSMENT AND ADJUSTMENTS BUDGET**

The purpose of this circular is to provide guidance to municipalities and municipal entities in the province on the preparation of the 2018/19 Adjustments Budget as well as the revised revenue and expenditure projections which must be incorporated in the Mid-year Budget and Performance Assessment. This circular must be read together with MFMA Circular 93.

MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT

MFMA Section 72(1)(a) states that the Accounting Officer of a municipality must by 25 January of each year assess the performance of the municipality during the first half of the financial year.

As per MFMA Section 72(1)(b), the Accounting Officer must submit a report on such assessment to-

- (i) The Mayor of the municipality;
- (ii) The National Treasury; and
- (iii) The relevant Provincial Treasury.

In terms of MFMA Section 72(3) the accounting officer must, as part of the review—

- (a) make recommendations as to whether an adjustments budget is necessary; and

(b) recommend revised projections for revenue and expenditure to the extent that this may be necessary.

MFMA Section 54(1)(f) states that on receipt of a statement or report, submitted by the Accounting Officer of the municipality in terms of Section 71 or 72, the Mayor must in case of a Section 72 report, submit the report to the Council by 31 January of each year.

During Limpopo Provincial Treasury Mid-year engagements, it was observed that the majority of municipalities in the province do not adhere to Section 72(3) of the MFMA, as the Mid-year budget and performance assessment reports submitted to LPT do not include the revised projections for revenue and expenditure to the extent that this may be necessary.

ADJUSTMENTS BUDGET

In terms of Regulation 23(1) of the Municipal Budget and Reporting Regulations (MBRR), an Adjustments budget referred to in Section 28(2)(b), (d) and (f) of the Act may be tabled in the municipal council at any time after the mid-year budget and performance assessment has been tabled in the municipal council, but not later than 28 February of the current year.

As stipulated in the National Treasury MFMA Circular 93, during the 2018/19 budget verification process it was evident that municipalities are still not able to align mSCOA original budget data string to the original budget adopted by municipal council. The root cause for the discrepancies is that municipalities do not plan, test and generate the Schedules A1 directly from the financial systems but prepare the Schedules A1 manually on excel spreadsheets and then captured the tabled and original budgets on the system (in a worse case scenario the core system vendor captures the budget on behalf of the municipality) after these were tabled and adopted in Council.

In terms of the MFMA and Municipal Budget and Reporting Regulations (MBRR), errors in the budget can only be corrected during the adjustments budget process. Municipalities should therefore ensure that the adjusted budget data strings align to Schedule B as adopted by Municipal Council. National and Provincial Treasuries will undertake a verification process on the adjusted budgets in relation to the data strings. **Municipalities are advised to submit the draft adjusted budget data strings and**

Schedule B in advance for verification purposes to ensure that aligned documents are adopted by municipal council by 28 February 2019.

Provincial Treasury requests all municipalities (including municipal entities) to submit the draft adjusted budget data strings and Schedule B **on or before 15 February 2019** to Provincial Treasury. The data strings should also be uploaded on the mSCOA portal **on or before 15 February 2019.**

Schedule B Regulation 2 of the MBRR indicates the supporting documents to be submitted with the Adjustments Budget include the following:

Adjustments to budget assumptions; Adjustments to budget funding; Adjustments to expenditure on allocations and the grant programmes; Adjustments to allocations and grants made by the municipality; Adjustments to councillor allowances and employee benefits; Adjustments to service delivery and budget implementation plan; Adjustments to capital expenditure; Other supporting documents and the Municipal Manager's quality certification.

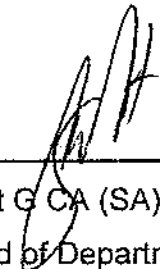
The Other supporting documents referred to in Schedule B Regulation 2 should include, inter alia, the following documents:

- Loan amortisation schedules (where applicable);
- VAT reconciliation for the 2017/18 financial year as well as for the first six months of 2018/19;
- Funding and reserves policy; and
- Draw down schedule for loans (where applicable).

LPT has observed that some municipalities table the Mid-year budget and performance assessment report together with the Adjustments budget for adoption. An Adjustments budget referred to in Section 28(2)(b), (d) and (f) of the MFMA may be tabled in the municipal council at any time after the mid-year budget and performance assessment has been tabled in the Municipal Council, but not later than 28 February of the current year. In addition, one of the key objectives of the Mid-year engagements held with municipalities is to enable LPT to have an impact on the municipalities' Adjustments budget. **Municipalities must table the revised revenue and expenditure projections in the prescribed Adjustment budget format for consideration The**

Adjustment budget must not be adopted on the same day in which the Mid-year assessment report was tabled to council. This will allow council to have sufficient time to review the proposed adjustments made by the Municipal Manager and consider inputs by Treasury. It should be noted that that the adjustment budget must be adopted by the 28 February each year in line with the MBRR.

Looking forward to a timeous submission of the 2018/19 Mid-year budget and performance assessment reports, no later than 25 January 2019 and the submission of the Adjustments budget no later than 10 working days after tabling in the municipal council.



Pratt G CA (SA)
Head of Department

18/12/2018
Date