



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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Ref No: GT/3

Mr Dtithabe Nkoane(acting)
Municipal Manager
Emfuleni Municipality
P O BOX 3
VANDERBIJLPARK
1900

Email: mm@emfuleni.gov.za

Dear Mr Dtithabe Nkoane(acting)

FAILURE TO ADOPT A FUNDED BUDGET FOR THE 2019/20 FINANCIAL YEAR AND THE PROCESS FOR CORRECTION

According to our records, your municipality has proceeded to adopt an unfunded budget for the 2019/20 financial year. As you are aware in terms of your fiduciary duties as the Accounting Officer of the municipality, section 18 of the Municipal Finance Management Act, 2003 (Act No 56 of 2003), prohibits the adoption of an unfunded budget. Your failure to comply with the requirements of the MFMA is not only disappointing but can have adverse consequences for your municipality if left uncorrected.

An unfunded budget is indicative 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 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.

Given the foreseen consequences of adopting an unfunded budget, National Treasury would like to give you the opportunity to rectify this situation through a *Special Adjustments Budget*. 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.

In order to rectify the situation, the following steps must be followed:

a) *Engagement between the municipality and the Provincial Treasury*

The provincial treasuries have agreed to hold individual meetings with each municipality in their respective provinces who has adopted an unfunded budget. The purpose of this engagement will be to assist your municipality in identifying and effecting the necessary adjustments to reflect a funded budget position. This will require the municipality to make hard but necessary expenditure and revenue choices, albeit unpopular. This task **must** be completed by the **end of October 2019**.

b) *Re-adoption of the revised budget in Council through a Special Adjustments Budget*

Once the budget has been revised to reflect a funded position for the 2019/20 financial year, the revised budget must be re-adopted at Special Adjustments Budget meeting of Council. Approval for this process will be granted by the National Treasury. The timeframe for this process is between the **1st to the 11th of November 2019**. The revised budget must include current payments to bulk suppliers. The budget proposed over the 2019/20 MTREF period must also reflect gradual improvements to cash surpluses to prioritise any arrear payments to bulk service providers.

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 rectify the budget informing them that the next tranche of the equitable share due on 02 December 2019 will be withheld.

The National 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 any measures taken to rectify this matter do not compromise service delivery. Your response must include a detailed plan to reverse the current situation. Please ensure that you include revised Municipal Budget and Reporting Regulations (MBRR) schedules and the new Council resolution indicating the adoption of the revised budget. All responses must be sent to Sadesh Ramjathan at: sadesh.ramjathan@treasury.gov.za.

Yours faithfully



MALIJENG NGQALENI
DEPUTY DIRECTOR-GENERAL: INTERGOVERNMENTAL RELATIONS
DATE: 8 OCTOBER 2019

CC: The Mayor
CFO
MFMA Co-ordinator
Office of the Auditor-General
Department of Co-operative Governance