ADDRESS BY THE MINISTER OF FINANCE, MR T A MANUEL
NATIONAL ASSEMBLY
THE SECOND READING DEBATE
MUNICIPAL FINANCE MANAGEMENT BILL
11 SEPTEMBER 2003

Madam Speaker, honourable members,

The National Treasury is not given to hyperbole or sensation. However the debate on the Municipal Finance Management Bill in the National Assembly today is indeed an occasion to bring to fruition what has been a record or damn near record. It has taken the greater part of three years to draft, redraft and refine, in fact I have lost count of the numerous version of the bill as circulated. If my calculations are correct, there were 41 committee hearings and sittings on this Bill in Parliament, in addition to smaller working groups that also met.

There should be no suggestion Madam Speaker that this legislation is not the most extensively consulted upon piece of legislation before this House ever.

The Bill covers for the local sphere of government the same issues that the Public Finance Management Act covers for the national and provincial spheres. Indeed, this Bill was originally planned to be part of the Public Finance Management Bill, when it was first prepared for tabling as the Treasury Control Bill in 1998. However, at the time the specific characteristics of local government were so different from the national and provincial spheres that it warranted a separate Bill. Hence it was removed from the Treasury Control Bill shortly before its gazetting (on 14 August 1998) and tabling. The PFMA was enacted as Act 1 of 1999, within 6 months of it’s gazetting.

Constitutional Amendments

The Bill also involved two significant rounds of amendments to the Constitution. The first amendment passed in 2001 amended section 230 of the Constitution, which deals with municipal borrowing, by adding a new section 230A to permit municipal borrowing and long-term contracts. A second amendment was effected early this year to section 139 of the Constitution on provincial intervention in municipalities, by allowing for a process of mandatory intervention in the event of a serious financial crisis in a municipality where the ability to provide basic services are impaired.

Both these amendments were necessary, not only to resolve municipal financial crises, but also to protect municipalities and to reduce the risk premium for municipalities when they borrow funds. It protects municipalities whilst they are resolving their problems, to enable them to continue providing services. It also provides certainty to lenders and investors about action that can be taken against a municipality that do not meet their financial obligations. In this respect, provincial governments will have to rise to the challenge of assisting or intervening earlier when municipalities experience financial problems, rather than ignoring the problem. Compliance by provincial governments to monitor municipal finances, and to act when problems are first identified, is critical for good governance in South Africa, and to assure our people that basic services are being provided.

National government is committed to facilitating a municipal borrowing market, and will take steps to ensure that all spheres of government act on their constitutional responsibilities. This commitment will enable government to maximize delivery, and allow municipalities to lower their costs of borrowing for capital expenditure and to attract investors. The monthly reporting system in the Bill offers a powerful mechanism to both the municipal council and province to assist them in their monitoring role, on a monthly or quarterly basis. This early warning system is already being used very successfully in the monitoring of provincial finances.

But coming back to the Bill, Madam Speaker, it does not only permit municipalities to borrow and provide mechanisms for resolving financial problems in a municipality, it goes much further. It also attempts to modernize the approach to budgeting and financial management in municipalities.

Budget Reforms

The current system of budgeting and financial management at municipal level is antiquated and based on one year line-item budgeting. Unlike the national and provincial spheres of governments, budgeting reforms such as the Medium Term Expenditure Framework, budgeting by programmes and votes rather than inputs, focusing on outputs and performance etc, have not been implemented, save for a few pilot municipalities, at the local sphere. The Bill before this House will introduce these budget reforms to municipalities over the next few years.

As with the PFMA, the approach to financial management gives effect to the principle of ensuring effective accountability for the policy and implementation processes. The Mayor will be responsible for policy and outcomes, and the Municipal Manager responsible for outputs and implementation. Whilst the Municipal Manager is accountable to the Mayor or Executive, both are also accountable to the Municipal Council, which must approve the policy proposals and budget, and play an oversight role over their implementation and outputs.

The Bill spells out clearly the role of Councillors, Mayors, Municipal Managers and other officials in their engagement with the municipal budget and its implementation, procurement or supply chain management and municipal entities. It spells out the policy-guiding role that the Mayor plays in the budget process, with the IDP and other policy areas, and in setting performance targets for the Municipal Manager. It makes the Municipal Manager the accounting officer responsible for implementation of policies approved by the Council, and in accordance with the performance contract agreed to with the Mayor.

Annual and Monthly Reports

The annual report is one of the most important tools for performance accountability. The Bill imposes tough sanctions against a Municipal Manager or municipality that fails to submit its financial statements within two months after the end of the financial year. This measure is in line with the PFMA, and deals with the legacy of lethargy in submitting financial statements promptly after the end of the financial year. Just as this is no longer tolerated for national and provincial departments, it will not be tolerated for municipalities.

Moreover, the annual report will include reports on performance, to be audited in terms of the Systems Act. The annual report will also include details of all intergovernmental grants, ensuring that these are all budgeted for by the municipality, and spent in accordance with the approved budget. The Bill also obliges municipalities to disclose the salaries and remuneration of the Mayor, Municipal Manager, Councillors and senior officials. The annual report is an important tool for empowering both Councillors and the local community to hold the municipal officials and Mayor accountable for their performance in the delivery of services.

Just as important are the provisions requiring monthly and quarterly reports on finances and service delivery. These reports enable the both the Municipal Manager and Mayor to be pro-active in dealing with problems of implementation as they arise. They allow councillors and provincial government to monitor the performance of the municipality in-year, without waiting for the annual report, which is only published after the end of the financial year. All these reporting mechanisms are in line with international best-practice on fiscal and financial reporting.

The Bill ends the practice of undisclosed or unaudited banking accounts or investments by municipalities. It requires each municipality to open bank accounts into which all money received must be paid. The Municipal Manager is made responsible for how these accounts are managed. Municipal investments will be completely transparent, and must be in accordance with the investment framework prescribed by the National Treasury.

The Bill also provides strong measures for dealing with financial misconduct and grossly negligent behaviour.

Co-operative Governance

The Bill gives effect to Chapter 3 of our Constitution dealing with Co-operative Governance. It facilitates greater co-ordination between the spheres of government, especially in the areas of budgeting, planning, policy implementation and auditing process. It also allows for the alignment of the IDP and the budget of a municipality, within a balanced budget framework, including a realistic projection of revenue to be collected. The Bill promotes a more consultative and transparent process for national organs of state providing bulk resources such as electricity and water to municipalities, especially around price-setting policies. There is also a process to manage intergovernmental financial disputes.

The Bill will also promote public-private partnerships by allowing municipalities to enter into long-term contracts, subject to a regular review. Municipalities that ensure proper consultative process with the relevant national departments will be exempted from any tariff-capping legislation that may prevent the private sector from entering into long-term contracts with municipalities.

It is important to note that the bill allows for a greater degree of consultation and communication with communities, residents, ratepayers, lending institutions etc. Municipalities must rise to the challenge of providing important documents such as the budget, IDP, quarterly and annual reports on their websites, and to ensure greater accessibilty of these documents to all communities they service.

Challenges Ahead

This Bill is forward looking, and requires a new approach to implement the radical changes that must replace old practices. New skills are required to implement the Bill successfully, and a new cadre of Municipal and Financial managers and practitioners will be required in municipalities. In implementing the MFMA, it is more important to implement the SPIRIT of the MFMA, than to do so merely for the sake of nominal compliance.

The challenge facing us in implementing this Bill are enormous, given that there are 284 municipalities. We have already started implementing the MFMA reforms by commencing with a few pilot municipalities over the last three years. The pilots now encompass 39 municipalities across the country that are rolling out sections of the reforms with assistance from National Treasury and the international technical assistance programme. Visible signs of progress have been noted in 24 municipalities who have already tabled multi year 2003 budgets.

An important element of the implementation plan is creating municipalities that are learning organizations, capable of benefiting from best practices, peer learning etc. In addition, we need to encourage the development of a cadre of technically competent professionals and managers in the public sector. In this respect, our higher learning institutions, professional associations and SETAs have a critical role to play. I have urged that professional associations like IPFA and IMFO merge to pool their resources, and rise to the challenge of generating a sufficient number of members equipped with the right mind-set to implement these reforms.

There is also an important role for the private sector to assist municipalities, by investing, lending and through public-private partnership initiatives. Such a role should also extend to assisting municipalities to develop their capacity in project management, capital planning and in modernising business processes.

In taking up these opportunities, I want to appeal to the private sector to do so in an ethical way, with the correct attitude in the public interest. As we in the public sector become more transparent, we would appeal to the private sector to also provide better quality of services to the public sector, and minimise corruptive and exploitative practices, irresponsible speculation and investment of public funds etc. In particular, I want to appeal to accounting and consulting firms not to see the MFM Bill as an opportunity to make super-profits, or to create more dependency on them. To protect municipalities from these opportunistic practices, the National Treasury will be recommending training courses to municipalities, and consider measures that should be taken to build capacity rather than dependency.

Conclusion

Madam Speaker, this Bill is one of the foundation Acts of Parliament required by the Constitution and the 1998 White Paper on Local Government. It gives effect to chapters 3 and 13, and section 139 as amended, of the Constitution.

In concluding, Madam Chair, I want to thank a number of persons who have contributed towards the Municipal Finance Management Bill. Firstly, I want to thank the members of the two portfolio committees on Finance and Local Government, for working so closely to ensure that the Municipal Finance Management Bill and Municipal Systems Act are consistent and linked to each other in a way that will help local government officials and councillors. I want to thank Ms Barbara Hogan and Mr Yunus Carrim for their guidance during the processing of the two bills.

I also want to thank my colleague Minister Sydney Mufamadi and his officials for working so closely with the National Treasury to ensure that the two bills are consistent, and for their assistance during the very hard process to amend the Constitution, particularly section 139. This co-operation will be even more important in the coming years as we implement both the Systems Act and this Act.

I want to thank Mr Johnny de Lange and the Portfolio Committee on Justice and officials for all their assistance in processing the two Constitutional Acts required for this Bill.

I would also like to thank SALGA for its participation in the process, particular the valuable inputs from the Mayors of Tshwane, Ekurhuleni and Matjhabeng and all the individual inputs.

I would also like to end by thanking the officials of the National Treasury for all their hard work and persistence over this period, to ensure that the two Constitutional amendments and this Bill have finally being completed.

Now they face the even harder task of implementing the Bill successfully.