

# Financial management and MFMA implementation

## Introduction

A consolidated legal framework for democratic, accountable and developmental local government is formed by the Municipal Finance Management Act (MFMA), together with the Municipal Structures Act, Municipal Systems Act, Municipal Property Rates Act and other local government legislation.

*A legal framework for democratic and accountable local government*

The implementation of the MFMA began in July 2004, and there is growing awareness of its significance throughout government. A phasing-in strategy allowed municipalities adequate time to implement the reforms required by the Act, and progress reported to date is encouraging.

The MFMA assigns clear roles and responsibilities to the various role-players involved in municipal financial management, and sets out to achieve and maintain public accountability, transparency, good governance and financial sustainability. It is a powerful tool that sets the framework for municipal financial reforms.

*MFMA assigns clear roles and responsibilities*

The MFMA is based on five principles:

- Promoting sound financial governance by clarifying the roles and responsibilities of council and officials
- Ensuring a strategic approach to budgeting
- Modernising financial management
- Promoting cooperative and consultative governance
- Promoting sustainable local government.

Adherence to these principles will lay a basis for accelerated service delivery.

## What makes the MFMA special?

*Integrated Development Plans incorporate community objectives*

Local government is the community level of government. Integrated Development Plans (IDPs) incorporate community objectives into the day-to-day activities of municipalities and, together with other community participation processes, set the scene for the practical involvement of the community in local government affairs. This ensures that municipal expenditure and activities are directed according to community needs.

*Clear guidelines link IDPs to budget processes*

To deliver on identified community priorities it is important that the budget and IDP be linked to give effect to the plans. The MFMA provides clear guidelines to municipalities on linking IDPs to budget processes. It also requires community consultation with regard to the performance of officials and political office-bearers, supply chain management, incurring of long-term borrowing, establishing municipal entities and a range of other issues. Furthermore, it creates a framework for the resolution of financial disputes.

The MFMA's significant financial and fiscal reforms include new budget standards and formats, the establishment of audit committees and internal controls, improvements to procurement and supply chain management processes, performance measurement and reporting, mechanisms to resolve financial problems and procedures to determine and manage misconduct.

*A focus on building financial management capacity*

To step up implementation and compliance with the MFMA, the focus over the past two years has been to build financial management capacity within municipalities, raise awareness and establish monitoring structures.

Although the MFMA is being progressively phased in, according to local capacity, municipalities are required to ensure that the spirit of the financial reforms is observed. In recognition of the vast differences in municipal capacity to embrace these financial reforms, the National Treasury has prioritised certain areas for the initial implementation of the MFMA.

Table 6.1 shows municipal capacity levels, by province. Municipalities with lower capacity are allowed more time to implement the MFMA than municipalities with higher capacity.

*National Treasury provides support for implementing MFMA*

Support for implementation of the MFMA is provided through:

- The financial management grant, which was introduced in 2000/01 to provide financial support to municipalities.
- A programme for the employment and development of finance interns.
- Issuance of MFMA circulars and guidelines.
- Provision of a help line for questions about the MFMA and implementation issues, as well as a summary of frequently-asked questions and responses.
- Publication of MFMA pocket guides and a guide for councillors.

- Posting of supporting materials on the National Treasury website.
- Provision of technical assistance in the form of international experts to support implementation in selected municipalities.
- Additional support through provincial treasuries.

**Table 6.1 Municipalities by capacity per province, 2004**

Province	Number	High	Medium	Low
Eastern Cape	45	6	16	23
Free State	25	5	10	10
Gauteng	14	6	7	1
KwaZulu-Natal	61	9	16	36
Limpopo	30	3	8	19
Mpumalanga	21	6	6	9
Northern Cape	32	1	18	13
North West	25	6	8	11
Western Cape	30	8	18	4
<b>Total</b>	<b>283</b>	<b>50</b>	<b>107</b>	<b>126</b>

1. One municipality disestablished 2006.

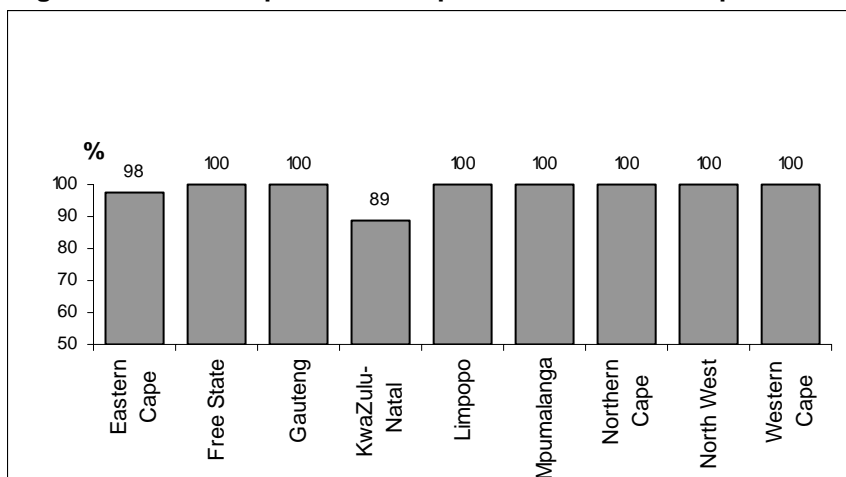
Source: Local Government database, NT

## Implementation of priority areas

Municipalities and municipal entities are required to comply with all provisions of the MFMA as they progressively come into effect. The implementation of priority areas ensures that basic structures and processes are put in place along with planning that will provide the foundation for implementation. Municipalities are required to report on progress to the National Treasury quarterly. Summaries of progress in these priority areas are provided in this chapter.

Municipalities are encouraged to adopt a project management approach to implementation. This includes an implementation plan, the appointment of project managers, a steering committee and allocation of appropriate resources.

Figure 6.1 indicates the percentage of municipalities that have submitted the 2004/05 MFMA implementation plan and any updates as at 30 April 2006.

**Figure 6.1 MFMA implementation plans received as of April 2006**

Source: National Treasury survey

*Act is being  
implemented  
progressively in  
municipalities*

*Nearly all municipalities report implementing proper internal controls*

The MFMA requires that an accounting officer and top management team (comprising the chief financial officer and other senior managers responsible for votes) be appointed and that appropriate responsibilities are defined in a system of delegations. Ninety per cent of municipalities that responded to a survey in November 2005 had an accounting officer and a top management team in place. Seventy-three per cent reported that a system of delegations and performance reviews had been implemented.

Almost all municipalities reported implementing proper internal controls and cash management systems, and between 85 per cent and 95 per cent of municipalities were able to meet all financial obligations to creditors within the 30-day time period prescribed.

## **Improvements in budgeting**

Reforms cover the full cycle of budgets – from planning to implementation

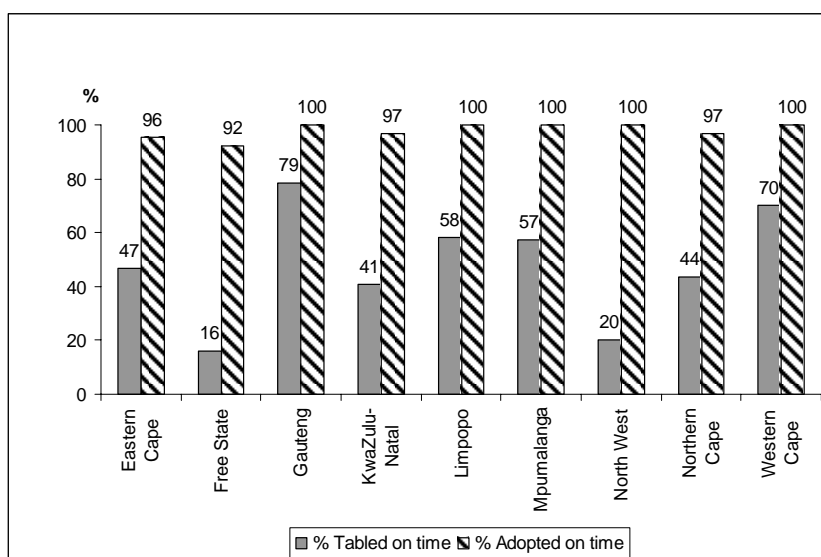
One of the key components of the financial reforms is budgeting. Reforms in this area cover the whole budgets-cycle, from planning and approval through to implementing budget plans and annual reporting. The first objective is to achieve quality and credible multi-year budgets.

Many municipalities shows improvement in the following elements of budgeting:

- Multi-year budgets for capital and operating budgets
- Tabling and approving budgets within the prescribed timetable
- Integrating IDPs with budgets
- Service Delivery and Budget Implementation Plans
- Consultations with communities, national and provincial government
- Budget documentation of improved content and quality.

## **Slow progress with tabling and approval dates**

Although the legislated tabling and approval dates for budgets for all municipalities applied for the first time to the 2005 budgets, progress has been slow, as illustrated in Figure 6.2. This figure shows the percentage of municipalities that tabled (for consultation) and adopted their budgets in time. Section 16(2) of the MFMA requires mayors to table the annual budget in council at least 90 days before the start of the budget year, i.e. by March 31 each year.

**Figure 6.2 Budgets tabled and adopted, 2005/06**

Source: National Treasury survey

Municipal councils must consider approval of their annual budgets at least 30 days before the start of the budget year. Seven municipalities failed to approve a budget prior to the start of the 2005/06 financial year. Such non-compliance could have significant implications for service delivery and, in some cases, may lead to provincial intervention.

*Seven municipalities failed to approve a budget prior to start of financial year*

Although 153 municipalities did not table their budgets by 31 March 2005, only seven municipalities failed to meet the deadline of 30 June 2005. In 277 municipalities in five provinces there was 100 per cent compliance in approving budgets by the deadline.

There is a significant difference between the number of municipalities tabling on time (46 per cent) and the number approving on time (approximately 99 per cent). Compliance in tabling budgets is important because it allows adequate time for consultation on the budget before approval. All municipalities are legally required to comply with these provisions.

To advance good budgeting practices and to improve governance during the transition to new councils after the 2006 elections, municipalities were encouraged to table budgets for 2006/07 prior to the municipal elections so that incoming councils would be able to finalise their budgets in accordance with the MFMA. Of the 22 municipalities receiving technical assistance, 10 were able to achieve an early tabling, while the remainder tabled their budgets in March 2006.

*Municipalities were encouraged to table budgets prior to elections*

The quality of municipal budget documentation has improved, offering information that is more easily understood and that clearly

sets out budget allocations and supporting information, such as budget-related policies and measurable objectives.

Improvements were also noted in the production of Service Delivery and Budget Implementation Plans, which were fully integrated with budgets, IDPs and performance-management systems.

In 22 surveyed municipalities, 20 have fully integrated the multi-year capital budget with their IDPs, while 17 have integrated the operating budget.

***Service Delivery and  
Budget Implementation  
Plans promote  
accountability***

A priority reform in the implementation of the MFMA is support through circulars providing guidance on standard formats for budget schedules and supporting documentation. A significant benefit in improved budget standards will be the clarity and accuracy of information. Aligned to this reform is the link with Service Delivery and Budget Implementation Plans and performance reports throughout the year. This promotes the objective of improved accountability by directly linking planning documents to systems that monitor and report on performance.

These measures are intended to improve resource allocations for service delivery. However, the main challenge is the availability of key data on a real-time basis.

## **Improvements in reporting**

### **In-year reporting**

***Technical assistance  
provided to make sure  
information is timely  
and accurate***

Publication of key financial information on municipalities began in 2005/06. The information is drawn from data supplied by municipalities through standard in-year monthly and quarterly reports. Technical assistance is being provided to selected municipalities to ensure that data are available on time, and are complete and accurate.

Municipalities still face challenges producing accurate data from internal systems. A work programme that aims to remove duplication and improve the quality of information is under way. Twenty-four municipalities, accounting for about 70 per cent of total budgets, submitted data during 2005/06 that are suitable for publishing. High-capacity municipalities are required to submit monthly budget returns to the National Treasury, while medium- and low-capacity municipalities will supply similar financial information to provincial treasuries for publication. A template has been issued to support this initiative.

Monitoring by provincial treasuries, reporting per province, was expected to start in the middle of 2006.

***90 per cent provided  
monthly budgets to  
mayor and quarterly  
reports to council***

Of the 173 municipalities reporting during 2004/05, approximately 70 per cent provided monthly budget reports to the mayor and quarterly reports to council. This improved in 2005/06, with 90 per cent providing these reports. The National Treasury has recommended that municipalities publish these reports on their websites for easy reference by the public and oversight bodies.

Continuing challenges facing many municipalities are the implementation of healthy financial management systems, improving the management of outstanding consumer accounts and the establishment of complete asset registers to be able to comply with the new accounting standards. These challenges are evident whenever there are delays in submitting quality in-year reports to council, resulting in the non-availability of information.

### Annual reporting

Preparation and publication of quality annual reports is a high priority. The two main elements of annual reporting are the annual financial statements and the annual performance report. The MFMA requires that these reports, together with the audit report, are tabled in council not later than January 31 each year. Council must then adopt an oversight report within two months.

*Preparation and publication of quality annual reports is a high priority*

To support municipalities in the preparation of quality annual reports, the National Treasury has issued circulars and guidelines for annual reporting. However, there remains significant room for improvement in the quality of such reports.

In 2003/04, significant improvements in the quality of annual reports were noted in eThekweni, Ekurhuleni, Tshwane, Johannesburg, Buffalo City, Klerksdorp and Emnambithi municipalities. Annual reports for 2004/05 were still being submitted at the time of this report.

### Annual financial statements

Annual financial statements are to be submitted to the Auditor-General by 31 August each year by all municipalities. Municipalities with entities need to consolidate their annual financial statements and submit them by 30 September to Auditor-General.

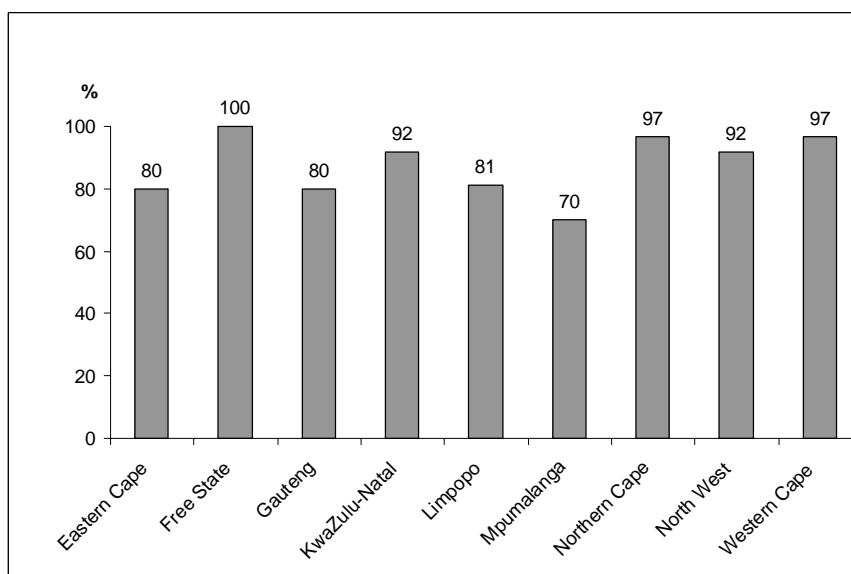
Timely submission of the annual financial statements is of critical importance to ensure that audits are completed in time for insertion in annual reports. Improvement in the quality of the statements and supporting explanations submitted to the Auditor-General are two areas being addressed to resolve this issue.

During 2004 and 2005 a high priority was given to submission of outstanding financial statements covering the three years from 2001/02 to 2003/04. The withholding and delaying of grants to defaulting municipalities was used to encourage submission of these financial statements. Such action was taken against 18 municipalities, which were then made to submit plans setting out when the old annual financial statements would be completed. Once these were submitted the transfers were effected.

*Withholding and delaying of grants is used to encourage submission*

Figure 6.3 indicates progress in the submission of statements for the years 2001/02 through 2003/04.

**Figure 6.3 Annual financial statements submitted to Auditor-General, 2001/02 through 2003/04**



Source: National Treasury survey October 2005

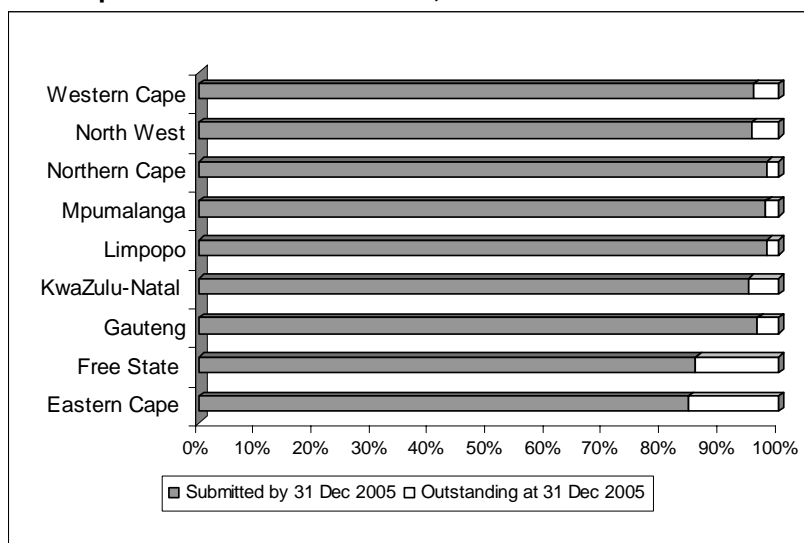
*High number not submitting statements is a cause for concern*

*Timelines for submission of statements*

Figure 6.4 records the submission of municipalities' annual financial statements for 2004/05 to the Auditor-General. While doing good progress with the submission of Annual Financial Statements the table also show that a sizeable number of municipalities did not meet the deadline.

Municipal entities are required to submit financial statements to the Auditor-General by 31 August each year, and the parent municipality is to submit consolidated financial statements by 30 September. Initial research has identified 77 such entities, and further research is under way.

**Figure 6.4 Annual financial statements submitted by municipalities to Auditor-General, 2004/05**



Source: Quarterly Report of Auditor-General 31 December 2005

The Auditor-General reported that of the 20 municipalities that have control over municipal entities, only four had submitted consolidated annual financial statements by September 2005, three had submitted between October 2005 and 30 June 2006, whilst thirteen had not submitted.

As of 31 December 2005, the Auditor-General had completed 79 audits of municipalities. The level of audit qualification of financial statements continues to be of concern.

While Buffalo City, eThekweni, Frances Baard, Emnambithi, George and Polokwane municipalities have achieved unqualified audits for the past two years, greater focus is required by all municipalities to eliminate the causes of qualified audits.

Municipalities need to improve their records with regard to outstanding consumer accounts. This includes strengthening their billing systems to be able to better identify indigent customers. This will allow municipalities to decide on appropriate write-offs of irrecoverable consumer accounts. When this exercise is completed, municipalities should be better informed of customer profiles and will be able to align collection practices and indigence policies with budget and tariff policies.

*Municipalities need to improve their records of outstanding consumer accounts*

## **Improving the oversight role of councillors**

In 2006 and 2007, focus will be on introducing the provisions of the MFMA relating to the council oversight report. This report is required to be adopted by all councils following their consideration of the annual reports of municipalities and municipal entities.

*A new focus on oversight by councils*

The purpose of the annual oversight procedure is to provide councillors, ward committees and communities with opportunities to review the performance of their municipalities over the previous year, promoting and reinforcing democratic practice and accountability.

Councils are also involved in oversight through the consideration of in-year reports, which mayors are required to table. The oversight afforded by the mid-year assessment plays a key role in subsequent budget deliberations.

A guidance circular has been issued that encourages councils to form oversight committees to conduct public hearings on the annual reports and to draft oversight reports for consideration by councils. These committees will also utilise the audit committees to provide expert, independent advice.

*Councils encouraged forming committees to conduct public hearings on annual reports*

The councils of Newcastle (KwaZulu-Natal), Klerksdorp (North West) and Mangaung (Free State) have approved processes for considering annual reports and for the formation of multi-party oversight committees.

Together, these initiatives will empower councillors to effectively discharge their responsibilities and help make municipalities more accountable.

***Municipalities must assess service delivery performance against predetermined targets***

## **Improving accountability, measuring performance**

Section 72 of the MFMA obliges municipalities to assess service delivery performance against predetermined targets, performance indicators and community needs as set out in the municipal Service Delivery and Budget Implementation Plans and IDPs. To accomplish this, municipalities are required to formally establish service delivery targets and performance indicators.

These must be derived from analysing a sound knowledge base that accurately represents the demand characteristics of the local community. This is best achieved by researching the behaviour and profile of individual households.

Municipalities must assimilate this information in their planning, management, monitoring and evaluation systems.

***Assessment methodology is based on Household Impact Evaluation Survey***

An assessment methodology was piloted in two municipalities in 2004 through the Household Impact Evaluation Survey, which has subsequently been fine-tuned. Two types of base indicators are used:

- Objective indicators measuring availability, affordability and accessibility of services. For example, the proportion of household expenditure on services, whether this is high or low, variability of this expenditure across wards and municipalities, and whether this reveals the impact of free services on the poorest households.
- Subjective evaluative indicators measuring reliability of and satisfaction with services – for example, individual and collective expectations and satisfaction with actual services, the discrepancy between actual and expected services and the degree of discontent.

Together with income and expenditure analysis, these indicators provide an overall picture of service delivery as experienced by individual households.

## **Accounting standards**

***Generally Recognised Accounting Practice replaces old standard***

Over the coming year, Generally Recognised Accounting Practice (GRAP) will progressively replace the Generally Accepted Municipal Accounting Practice. GRAP implementation has begun in 44 municipalities, including those provided with technical assistance.

Four municipalities – Johannesburg, Ekurhuleni, Nelson Mandela and George – produced their 2004/05 annual financial statements in accordance with the new GRAP standards. All municipalities that were categorised as high capacity for the phasing in of the MFMA are expected to implement the GRAP standards for their 2005/06 statements.

Sixteen of the 22 municipalities provided with technical assistance plan to have fully implemented GRAP standards while the remainder are still completing asset registers and values.

The Office of the Accountant General is offering training in specimen annual financial statements incorporating the new GRAP standards in high-capacity municipalities in 2006. Provincial treasuries are providing further support.

**Accountant General is offering training in annual financial statements**

## Capacity building

Capacity building is key to resolving municipal service delivery backlogs. The strengthening of senior management capacity and other technical abilities will ensure sustainable service provision to all.

**Strengthening senior management capacity is key to delivery**

Steps taken by national and provincial government in support of capacity building include:

- Direct, on-the-job training for councillors, officials and interns in the new processes being implemented.
- Development of competency standards and accredited training materials. These efforts have resulted in the registration of a National Qualifications Framework level six qualification in municipal finance management for at senior managers in local government.
- Assistance with the mentoring and development of finance management interns employed by municipalities.
- Provision of guidelines and circulars aimed at building understanding of implementation issues and standards.

Significant financial assistance has also been provided to municipalities through the finance management grant since 2000/01. More than R700 million has been transferred through this grant and, over the medium term, a further R450 million is to be allocated. The primary objective of the grant is building financial management capacity in municipalities. Allocations of the grant for the period 2000/01 to 2005/06 and those proposed for 2006/07 to 2008/09 are shown in Table 6.2.

**Significant assistance was provided through finance management grant**

**Table 6.2 Distribution of finance management grant per category, 2001/02 to 2008/09**

Year (R thousand)	Municipal category			Total	Number of municipalities
	A	B	C		
2001/02	15 500	28 500	16 000	60 000	31
2002/03	21 500	66 000	23 500	111 000	39
2003/04	21 000	138 330	51 500	210 830	149
2004/05	20 000	85 000	33 000	138 000	195
2005/06	20 000	81 000	31 500	132 500	194
2006/07	3 500	117 500	24 500	145 250	283
2007/08	3 500	117 500	24 250	145 250	283
2008/09	4 500	117 000	28 500	150 000	283
<b>Total Transfers</b>	<b>123 000</b>	<b>782 630</b>	<b>237 200</b>	<b>1142 830</b>	<b>-</b>

Source: Division of Revenue Acts 2000 to 2006

***A measurable increase in the knowledge and understanding of the legislation***

Through the support from this grant, there has been a measurable increase in the knowledge and understanding of the legislation and how it should be applied in practice. In some municipalities this knowledge is now institutionalised, and both councillors and officials apply the legislation in day-to-day activities.

The Municipal Finance Management Internship Programme is funded through the finance management grant and each municipality is required to employ, on two-year contracts, at least two recently graduated interns, preferably from previously disadvantaged local communities, who have specialised in finance, accounting or economics.

Table 6.3 shows the recruitment and movement of the finance interns grouped in municipalities per province, over the period October 2004 to November 2005.

**Table 6.3 Recruitment and movement of interns by province, 2004 to 2005**

	EC	FS	GP	KZN	LIM	MP	NW	NC	WC	Total
Interns 31 October 2004	43	26	25	49	25	24	24	22	49	287
New recruitment 2005	44	34	16	45	33	26	21	23	30	272
<b>Subtotal</b>	<b>87</b>	<b>60</b>	<b>41</b>	<b>94</b>	<b>58</b>	<b>50</b>	<b>45</b>	<b>45</b>	<b>79</b>	<b>559</b>
Interns leaving 2005	2	5	9	4	3	11	4	3	24	65
<b>Interns 31 October 2005</b>	<b>85</b>	<b>55</b>	<b>32</b>	<b>90</b>	<b>55</b>	<b>39</b>	<b>41</b>	<b>42</b>	<b>55</b>	<b>494</b>

Source: Local Government database

***Movement of interns shows good skills retention***

The majority of interns leaving municipalities move to permanent positions in other municipalities or government agencies. The movement of interns into other municipalities is a good indication of skills retention. The aim of the programme is to build a pool of skilled professionals in local government finance and the data suggest that good progress has been made to date. As more municipalities receive the finance management grant in the coming years, it is expected that the number of interns will increase.

A major challenge is for municipalities to establish long-term initiatives, building on the internship programme, to develop and retain skills and capacity. Many municipalities have taken up this challenge. As technical and financial support scales down over the medium term, it is hoped that municipalities will make plans for sustaining skills in financial management.

A continuing challenge to building capacity is eliminating delays in appointing suitably qualified officials to key vacant positions in municipalities. These vacancies continue to restrict progress in some municipalities and assistance is being provided, where sought, to address this issue.

***Provincial treasuries play a vital role in the monitoring of and support for municipalities***

Provincial treasuries also play a vital role in the monitoring of and support for municipalities. The National Treasury has delegated responsibility for the monitoring and administrative support of 244 municipalities to the provincial treasuries. To assist provincial treasuries in their functions, National Treasury conducts training workshops and meets regularly with the provincial treasuries to

consult on issues and policy direction. The provincial treasuries are responsible for supporting those delegated municipalities in the implementation of the MFMA.

## Technical assistance to municipalities

The Municipal Finance Management Technical Assistance Project was initiated in January 2003. The project provides international and local technical advisers to assist municipalities in the implementation of the MFMA.

*Technical Assistance Project provides local and international advisers*

In 2004/05 up to 35 international and local advisers were at work in 39 municipalities. Seven of the advisers were provided by international donor agencies. In addition, five local advisers are now employed on roving commissions to assist selected provincial treasuries in the rollout of the MFMA. Up to 21 advisers will continue to provide assistance across 26 municipalities over the medium term.

The tables below indicate progress in key areas in the 22 municipalities receiving technical assistance, as reported in early 2006.

Table 6.4 indicates progress in the municipalities receiving technical assistance in relation to the implementation of the annual reporting provisions of the MFMA. Only nine of the 22 municipalities receiving technical assistance tabled their reports on time and only two received unqualified audits. While all have submitted their annual financial statements, only 13 did so on time. The general reporting issues and challenges raised earlier also apply to these municipalities.

*Only 9 of 22 municipalities receiving technical assistance tabled reports on time*

**Table 6.4 Annual reporting as of 15 May 2006**

Municipality	Capacity	2004/05 AFS submitted on time	2004/05 Audit reports received	2004/05 Audit status	2004/05 Annual report tabled			2004/05 Annual report on website
		On time(O) Late(L)	Y'=Yes, 'N'=No	NQ Unqualified; Q Qualified, D Disclaimed	On time	1 mth late	> 1 mth late	Y'=Yes, 'N'=No
<b>Eastern Cape</b>								
Cacadu	M	L	N		Y			Y
Lukhanji	M	O	Y	Q		Y		Y
Nelson Mandela	H	O	Y	Q		Y		N
OR Tambo	H	L	N		Y			Y
<b>Free State</b>								
Mangaung	H	L	Y	Q			Y	N
<b>Gauteng</b>								
Ekurhuleni	H	O	N				Y	N
Johannesburg	H	O	Y	D			Y	Y
Mogale City	H	L	N				N	N
Randfontein	H	L	N		Y			N
Tshwane	H	O	N				Y	N
<b>KwaZulu-Natal</b>								
Emnambithi	H	L	Y	NQ	Y			N
eThekweni	H	O	Y	NQ	Y			Y
Ilembe	L	O	N				N	N
Newcastle	H	L	N		Y			Y
uThungulu	H	O	N				N	N
<b>Limpopo</b>								
Greater Sekhuhune	H	O	N				N	N
<b>Mpumalanga</b>								
Mbombela	H	O	Y	Q			N	N
<b>North West</b>								
Klerksdorp	H	O	Y	D	Y			N
<b>Northern Cape</b>								
Frances Baard	M	O	Y	NQ	Y			N
Sol Plaatje	H	L	N				N	N
<b>Western Cape</b>								
George	H	L	N			Y		N
Knysna	M	O	Y	Q	Y			N
<b>Total</b>		<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>
<b>Number achieved</b>		<b>13</b>	<b>10</b>	<b>3</b>	<b>9</b>	<b>3</b>	<b>10</b>	<b>5</b>
<b>% achieved</b>		<b>59,1%</b>	<b>45,5%</b>	<b>13,6%</b>	<b>40,9%</b>	<b>13,6%</b>	<b>45,5%</b>	<b>22,7%</b>

Source: Local government database and survey, NT

Table 6.5 shows the progress of 22 municipalities in terms of meeting in-year reporting requirements. Section 71 of the MFMA requires the submission of quarterly reports to the mayor, who must table these in council. Ninety per cent of these municipalities complied. A mid-year performance review is also required under section 72 of the MFMA, with reports tabled in council in January each year. 81 per cent of these municipalities complied in 2005/06.

**Table 6.5 Financial reporting, 2006/07**

Municipalities 'Y' = Yes, has achieved. 'N' = No, not achieved	Capacity	S71 reports complete		S72 report complete	2005/06 AFS GRAP compliant	2005/06 assets register compliant
		First quarter	Second quarter			
<b>Eastern Cape</b>						
Cacadu	M	Y	Y	Y	Y	Y
Lukhanji	M	Y	Y	N	N	N
Nelson Mandela	H	Y	Y	N	Y	Y
OR Tambo	H	Y	Y	Y	Y	Y
<b>Free State</b>						
Mangaung	H	Y	Y	N	Y	N
<b>Gauteng</b>						
Ekurhuleni	H	Y	Y	Y	Y	Y
Johannesburg	H	Y	Y	Y	Y	N
Mogale City	H	Y	Y	N	Y	N
Randfontein	H	Y	Y	Y	Y	Y
Tshwane	H	Y	N	Y	Y	Y
<b>KwaZulu-Natal</b>						
Emnambithi	H	Y	Y	Y	Y	Y
eThekweni	H	Y	Y	Y	Y	Y
Ilembe	L	Y	Y	N	Y	Y
Newcastle	H	N	N	Y	Y	N
uThungulu	H	Y	Y	Y	Y	N
<b>Limpopo</b>						
Greater Sekhuhune	H	Y	N	Y	N	N
<b>Mpumalanga</b>						
Mbombela	H	Y	Y	N	N	N
<b>North West</b>						
Klerksdorp	H	Y	Y	Y	N	N
<b>Northern Cape</b>						
Frances Baard	M	N	N	Y	Y	Y
Sol Plaatje	H	Y	Y	Y	N	N
<b>Western Cape</b>						
George	H	Y	Y	Y	Y	Y
Knysna	M	Y	Y	Y	N	Y
<b>Total</b>		<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>
No of achievements		20	18	16	16	12
% achieved		90,9%	81,8%	72,7%	72,7%	54,5%

1. This table indicates the municipalities that have implemented various requirements for financial reporting.
2. S71 requires the submission of monthly financial reports to the mayor who is required to table these in council.
3. A mid-year performance review is to be conducted and reports tabled in council in January.
4. The status of municipalities that plan to implement the GRAP standards for the year 2005/06 annual financial statement is shown.
5. The number of municipalities that have implemented assets registers and systems needed to meet the reporting standards is shown

Source: National Treasury local government database and survey

The table also indicates the number of municipalities that will be compliant with the GRAP standards for the 2005/06 annual financial statements. The final column shows the number of municipalities that have implemented the asset system and fully comply with reporting standards. Progress has been achieved in the quality and timeliness of

*Improved reporting will strengthen oversight*

in-year financial and performance reporting to councils. This is an important area to promote the oversight role of councils.

Table 6.6 provides a summary of the status of the tabling of budgets and achievements in key aspects of the required budget standards: multi-year capital and operating budgets, linking of IDPs with capital and operating budgets, completion of Service Delivery and Budget Implementation Plans and the publishing of budgets on websites.

All but one municipality met the prescribed deadline of 31 March 2006 for the tabling of 2006/07 budgets. Nine of the municipalities tabled a budget prior to the municipal elections to facilitate early processing by the incoming council. To a large extent, most budgets are now multi-year budgets for both capital and operating expenditure. However, further quality improvements are needed.

**Table 6.6 Annual budgets, 2006/07**

Municipality	Capacity	Budget tabled			Multi year format		IDP/budget linked		SDBIP done		Tabled budget on website
		Feb	Mar	Apr	Capital	Operating	Capital	Operating	Capital	Operating	Yes(Y) No(N)
<b>Eastern Cape</b>											
Cacadu	M	Y			Y	Y	Y	Y		Y	N
Lukhanji	M		Y		Y	Y	Y	Y		Y	N
Nelson Mandela	H		Y		Y	Y	Y				N
OR Tambo	H	Y			Y	Y	Y		Y		Y
<b>Free State</b>											
Mangaung	H	Y			Y	Y	Y	Y			N
<b>Gauteng</b>											
Ekurhuleni	H		Y		Y	Y	Y	Y	Y	Y	N
Johannesburg	H			Y	Y	Y	Y	Y	Y	Y	Y
Mogale City	H		Y		Y	Y					Y
Randfontein	H		Y		Y	Y	Y	Y			N
Tshwane	H	Y			Y	Y	Y	Y	Y		Y
<b>KwaZulu-Natal</b>											
Emnambithi	H		Y		Y	Y	Y	Y	Y	Y	N
eThekwini	H		Y		Y	Y	Y				N
Ilembe	L	Y			Y	Y	Y	Y	Y	Y	N
Newcastle	H		Y		Y	Y	Y	Y	Y	Y	Y
uThungulu	H	Y			Y	Y	Y	Y	Y	Y	N
<b>Limpopo</b>											
Greater Sekhuhune	H	Y			Y	Y	Y	Y			N
<b>Mpumalanga</b>											
Mbombela	H		Y		Y	Y	Y	Y			N
<b>North West</b>											
Klerksdorp	H	Y			Y	Y		Y	Y	Y	N
<b>Northern Cape</b>											
Frances Baard	M	Y			Y	Y	Y	Y	Y	Y	N
Sol Plaatje	H		Y		Y	Y	Y				N
<b>Western Cape</b>											
George	H		Y		Y	Y	Y	Y			N
Knysna	M		Y		Y	Y	Y	Y			N
<b>Total</b>		<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>
Number Achieved		9	12	1	22	22	20	17	10	10	5
% Achieved		41%	55%	5%	100%	100%	91%	77%	45%	45%	23%

1. This table shows: achievements in tabling of budgets by February 2006, March 2006 and planned for April 2006.

2. The achievements in achieving multi-year budgets for capital and operating budgets.

3. The achievements in linking the IDP and budgets for capital and operating budgets.

4. The municipalities that had completed draft SDBIP for capital and operating purposes by survey date.

5. The municipalities that had already displayed their budgets on the municipal web site

Source: National Treasury local government database and survey

Remaining challenges now being addressed through technical assistance at these municipalities include:

- Establishing better oversight of financial matters by councils, particularly the oversight of annual reports.
- Improving service delivery through better project management and supply chain management.

*Remaining challenges are being addressed through technical assistance*

- Improvement in revenue management, including policies and systems to increase collections and reduce losses.
- Continuous improvement in budgeting and integration with development planning and financial reporting.
- Broader-based capacity building through the training of officials and councillors in finance management and development of finance interns.
- Continuous improvement in financial and performance reporting.
- Asset management policies and systems, risk management and internal controls, cash and banking procedures, and supply chain management policies and processes.

## Other reforms

### *Internal audit units and audit committees are key to reform process*

#### Internal audit units and audit committees

The establishment of internal audit units and audit committees is an important element in the reform process. The municipalities provided with technical assistance have established internal audit units and have audit committees. In one of these municipalities it became necessary to reconstitute the audit committee in 2005 due to the non-availability of members. This remains a challenge in smaller municipalities and the sharing of these services is encouraged.

#### Independent credit ratings

As part of the reform programme municipalities are encouraged to obtain independent credit ratings, and selected municipalities are being given direct support to achieve this objective. Credit ratings provide future lenders and potential investors with a basis for assessing investment risk, leading to cheaper borrowing costs and enabling municipalities to supplement their own resources and grants.

Table 6.7, drawn from comparative studies of selected municipalities in late 2005 and early 2006, shows that metropolitan municipalities are in relatively good credit standing.

**Table 6.7 Credit ratings of metropolitan municipalities**

<b>Metro</b>	<b>Long-term</b>	<b>Short-term</b>
eThekweni	zaAA	zaA1+
Ekurhuleni	zaAA-	zaA1+
Cape Town	zaA+	zaA1
Tshwane	zaA+	zaA1
Johannesburg	zaA	zaA1
Nelson Mandela	zaA	zaA1
George	zaA-	zaA2

Source: Global Credit Rating Co report October 2005 - eThekweni.

CA-Ratings reports January and March 2006 - others.

The credit ratings of municipalities are based on South African national scales. The highest grade in the long-term assessment is “zaAAA” and scales down from there to zaBBB – the lowest. Within each of the levels a “+” or “-” sign indicates further relative strength or weakness. An “A” indicates relative strength and capacity to repay liabilities. The best short-term grades range from zaA1+ down to zaA1-. In the examples shown in the above table, eThekweni municipality has the best long-term rating and is at the highest level in the short term.

*eThekweni municipality has the best long-term credit rating*

## Improvements in supply chain management

New supply chain regulations were promulgated on 1 July 2005 and were being phased in according to municipal capacity until 1 July 2006.

*Improvements in supply chain management*

At the commencement of the phasing-in period, 28 municipalities established the committees required for evaluation and adjudication of tenders with no councillor membership or participation. Membership was drawn exclusively from senior officials, with support from specialists as required.

Ninety per cent of municipalities reported that they had revised supply chain management policies; however, only 60 per cent stated that regular reports on implementation were submitted to council.

All municipalities provided with technical support have adopted revised policies and processes for supply chain management and have provided training for officials and councillors. In the 2005/06 financial year 35 courses were presented to about 1 200 low- to middle-management personnel in 260 municipalities, and to 180 senior officials in 98 medium-capacity municipalities. It is envisaged that a further 852 practitioners across all municipalities will be trained in 2006/07.

*More than 850 supply chain practitioners will be trained in 2006/07*

### **Example of implementation: City of Tshwane**

The municipality processes more than 600 new tenders to the value of R2 billion per year. More than 90 000 orders valued at over R5 billion were placed in 2005 with approximately 2 500 different suppliers.

The high volume necessitated a centralised procurement system applying principles of:

- Separation of roles for policy setting by council and implementation by administration
- Regular and transparent reporting to council, supporting its oversight role
- Implementing a single, integrated transaction processing system
- Centralisation of functions and standardised documentation.

Changes to processes to comply with regulations included:

- An independent, three-committee tender system
- Written delegation of responsibilities and procedures
- Public advertising of all tender requests and awards on the website
- Procurement advice centres to manage enquiries.

Long-term benefits include:

- Accurate and complete data and records of all procurement
- Complete audit trail
- Management reports, per cost centre and vendor
- Detailed, real-time budget information
- Improved demand and vendor management
- Better written specifications and conditions of contract
- All tenders are awarded in terms of a preferential policy.

As of March 2006 the bid adjudication committee had approved more than 150 tenders, and over 250 requests for tenders had been issued under the new process.

### ***PPP unit provides assistance and acts as regulator***

## **Public private partnerships**

Regulations on municipal public private partnerships (PPPs) came into effect on 1 April 2005. The National Treasury's PPP Unit has the dual role of providing technical assistance to municipalities and acting as the PPP regulator.

Technical assistance has included project conceptualisation, procurement of transaction advisers, and supervision of transaction advisers and project delivery.

The regulatory function includes reviews of feasibility studies and provision of views and recommendations, reviews of procurement documents and of PPP agreements.

Recent PPP initiatives include:

- A City of Tshwane feasibility study showing that a PPP approach was the favoured option for new municipal offices.
- A review of service delivery mechanisms for provision of water by the Maluti-a-Phofung municipality, which led to assistance in establishing a PPP arrangement.

Over the coming year, national government will continue to provide support to enable municipalities to take advantage of opportunities presented by private sector participation.

## Conclusion

The chapter has highlighted areas of progress in the implementation of the MFMA and recognises the challenges that remain, in particular the building of capacity and skills, improving and integrating planning and budgeting, and improving the quality, timeliness and relevance of reporting.

The reforms have been supported by national government through conditional grants and technical assistance. The phasing in of the legislation has provided greater flexibility to those municipalities with low to medium capacity and has enabled the development and piloting of reforms over more than four years. These developments are now available, through the sharing of knowledge and tools, to the low - capacity municipalities.

Additional information is available on the National Treasury website, which provides dedicated support to municipalities, including the latest circulars and guides supporting implementation of the MFMA. These and other materials may be downloaded at [www.treasury.gov.za/mfma](http://www.treasury.gov.za/mfma). Enquiries may be forwarded to [mfma@treasury.gov.za](mailto:mfma@treasury.gov.za).

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