11

Financial management and MFMA implementation

Introduction

Sound financial management practices are essential to the long-term sustainability of municipalities. They underpin the process of democratic accountability. Weak or opaque financial management results in the misdirection and under-utilisation of resources and increases the risk of corruption. The key objective of the Municipal Finance Management Act (2003) (MFMA) is to modernise municipal financial management.

Sound financial management practices underpin the process of democratic accountability

Municipal financial management has four interrelated components: planning and budgeting, revenue and expenditure management, reporting and oversight. Each component contributes to ensuring that expenditure is developmental, effective and efficient and that municipalities are held accountable.

The reforms introduced by the MFMA are the cornerstone of the broader reform package for local government outlined in the 1998 White Paper on Local Government. The MFMA, together with the Municipal Structures Act (1998), the Municipal Systems Act (2000) and the Municipal Property Rates Act (2004), sets-out the procedures and processes for municipal operations, planning, governance and accountability.

This chapter gives an overview of:

- the municipal finance reform programme
- the management of the reform programme in municipalities
- how the budgeting and planning processes are being strengthened

- the strengthening of oversight through improved transparency and reporting practices
- the strengthening of the regulatory environment for municipal financial management
- institutional strengthening and capacity building.

Reforms in municipal financial management

The municipal financial management reforms aim to support a coherent institutional and procedural approach to financial management that assists in improving service delivery.

The MFMA replaced an antiquated system of local government finance that focussed on compliance with rules and procedures. Practices, such as one-year, line-item budgeting, did not support long-term strategic planning nor match resources with needs over the medium-term. This generally resulted in councils allocating resources based on historical commitments rather than looking at current priorities and the future needs of communities.

Municipal practices were not rooted in a culture of performance and regular reporting

Municipal practices were also not rooted in a culture of performance and regular reporting. Reports were often irregular or inaccurate, or contained too much data and too little useful information. Often municipalities did not publish annual reports and did not submit their financial statements for audit on time or in some cases at all. The lack of effective monitoring and reporting systems often resulted in councils finding out too late about any financial problems that had arisen.

The MFMA and its regulations seek to address these historical weaknesses in budgeting, accounting, reporting and provide tools for improving efficiency in the use of public funds.

The municipal financial management and accountability cycle

The municipal financial management and accountability cycle consists of:

- ***Integrated development plan (IDP):*** Sets out the municipality's goals and development plans. Council adopts the IDP and undertakes an annual review and assessment of performance.
- ***Budget:*** The IDP informs the budget. The budget sets out the revenue raising and expenditure plan of the municipality for approval by council. It is linked to the service delivery and budget implementation plan (SDBIP). The budget and the SDBIP lay the basis for the performance agreements of the municipal manager and senior management.
- ***In-year reports:*** Council monitors financial and non-financial performance through quarterly and mid-year reports produced by the administration and tabled in Council.
- ***Annual financial statements:*** These are submitted to the Auditor-General who issues an audit report on financial and non-financial audits undertaken simultaneously.
- ***Annual report:*** Reports on implementation performance in relation to the budget and the SDBIP.
- ***Oversight report:*** Council adopts an oversight report based on outcomes highlighted in the annual report and actual performance.
- ***Audit committee:*** Provides independent specialist advice on financial and non-financial performance and governance.

Key mechanisms for strengthening accountability

The first mechanism involves separating and clarifying roles and responsibilities of executive councillors, non-executive councillors and officials. This is important for good governance.

The municipal manager holds the primary legal accountability for financial management in terms of the MFMA and, together with other senior managers, is responsible for implementation and outputs. The aim is to allow managers to manage, but to also make them more accountable.

The municipal manager holds the primary legal accountability for financial management in terms of the MFMA

The executive mayor and executive committee are expected to provide the municipality with political leadership, by proposing policies, budgets and performance targets for the municipality and oversee their implementation by monitoring performance through monthly progress reports.

Non-executive councillors, as elected representatives of the community, debate and approve the proposed policies and budgets and also oversee the performance of the municipality. They hold both the executive mayor or committee and the officials accountable for performance on the basis of quarterly and annual reports.

The second mechanism involves developing a performance orientation. The legal framework introduces requirements and processes for establishing service delivery priorities and plans. As noted the SDBIP sets out performance targets and provides a link between the IDP plans and the budget.

The third mechanism involves strengthening reporting and disclosure requirements. High quality and timely management information allows management to be proactive, identifying and solving problems as they arise. It also strengthens the separation of roles and supports a performance orientation in local government.

Two-phased approach to implementing MFMA reform

Implementation of the MFMA reforms has been phased in two ways:

- First, implementation has been phased to accommodate the diverse capacity of municipalities. Municipalities with low capacity were given extra time to comply with certain aspects of the MFMA, while municipalities with high capacity were required to implement the Act more rapidly.
- Second, the implementation programme has focused on priority issues in municipal financial management irrespective of municipal capacity. During the initial period attention was given to: the preparation of implementation plans, assigning responsibility to the accounting officer for all funds of the municipality, establishing a senior management team with delegated authorities, implementing cash management and control over bank accounts, introducing monthly reporting on revenue and spending; implementing procurement reforms, identifying all municipal entities and completing all outstanding financial statements for audit.

An MFMA co-ordination structure was established to monitor the implementation of the reforms

An MFMA co-ordination structure consisting of national and provincial departments and the South African Local Government Association (SALGA) was established to monitor the implementation of the reforms. To facilitate this, municipalities submit quarterly implementation priority reports (refer to MFMA Circular 38). This chapter presents information drawn primarily from these reports. Further information is available on National Treasury's website.

Management of the reform programme in municipalities

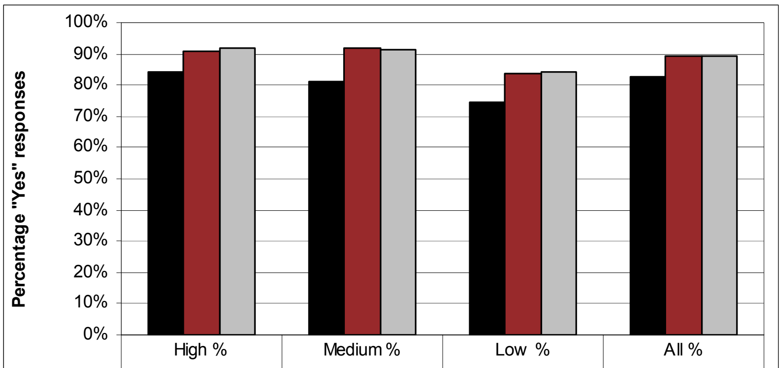
Effective implementation of the MFMA depends on good management arrangements being in place

Where a municipality has well developed management arrangements in place, it is generally easier to implement the MFMA and to maintain sustainable financial management practices. Conversely, where these management arrangements are lacking, implementing financial management reforms will be much harder.

Assessing management arrangements is a complex task. Two proxy indicators are used. The first measures a municipality's own assessment of its management arrangements and the second, monitors the vacancy rates for municipal managers and chief financial officers.

Figure 11.1 shows a noticeable improvement in municipalities own assessment of their management arrangements between 2004/05 and 2005/06, while between 2005/06 and 2006/07 there is a levelling-off.

Figure 11.1 Municipalities' own assessment of management arrangements, 2004/05 – 2006/07



	High %	Medium %	Low %	All %
2004/05	84%	81%	75%	83%
2005/06	91%	92%	83%	89%
2006/07	92%	91%	84%	89%

Capacity

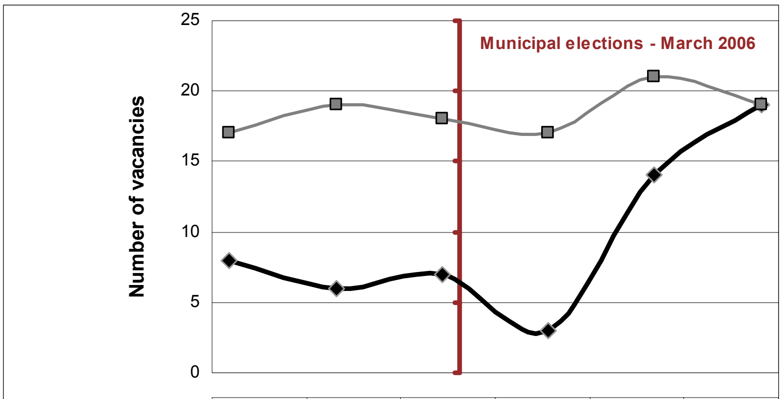
Source: National Treasury local government database
Note: The municipal capacity categories differentiate between 50 high, 106 medium and 127 low capacity municipalities.

Despite this largely positive self-assessment, the number of municipalities reporting vacancies in the key positions of municipal manager and chief financial officer (CFO) increased over the period, as shown in Figure 11.2. Moreover, in some of the larger municipalities, the position of CFO remained vacant for long periods. It is likely that the higher vacancy rates resulted in the flattening out of perceptions of management arrangements between 2005/06 and

2006/07. This period also coincides with the March 2006 local government elections.

The relationship between the 2006 elections and the increase in vacant positions for municipal managers and CFOs is illustrated in Figure 11.2. The vertical line represents the date of the local government elections in March 2006.

Figure 11.2 Vacancies for municipal managers and chief financial officers at the time of municipal elections, March 2006 (shown as red line) per quarter



	30-Sep-05	31-Dec-05	31-Mar-06	30-Jun-06	30-Sep-06	31-Dec-06
Municipal managers	8	6	7	3	14	19
CFOs	17	19	18	17	21	19

Source: National Treasury local government database
Note: The results show responses from 221 municipalities for Sept 2005 and 243 responses for December 2006, covering a 15 month period.

The negative impact of the 2006 local government elections is evidenced by the loss of senior managers in the six months following the elections. Further research on the impact of elections on the implementation of financial reforms and delivery of municipal services is required. This would enable government to prepare appropriate contingency strategies and support, including the need to stagger performance contracts between senior managers.

The negative impact of the 2006 elections is evidenced by the loss of senior managers in the 6 months following the elections

Strengthening planning and budgeting

Improved processes for municipal planning and budgeting empower a council to make better informed decisions and is fundamental to sustainable and efficient service provision.

The generic municipal budget cycle

The generic municipal budget cycle has been communicated to municipalities in MFMA Circular 19. The cycle involves:

- *A planning phase* that starts with the mayor tabling, in council, a budget process schedule by August. This schedule sets key target dates for the budget process. The planning phase involves the strategic review of the IDP, setting service delivery objectives for the next three years, consultation on tariffs, indigency, credit control and free basic services and reviewing the previous year's performance and current economic and demographic trends;

- *A preparation phase* which involves the analysis of revenue and expenditure projections, drafting budget related policies and considering local, provincial and national priorities;
- *Tabling* a complete proposed budget, IDP revisions and budget policies in council by March and consulting on and considering local, provincial and national inputs during April and May;
- *Approval* of the budget by council before 1 July; and
- *Publishing* the budget, the SDBIP and annual performance agreements on the municipal website and elsewhere.

The following three indicators seek to measure the effectiveness of municipalities in managing the budget cycle:

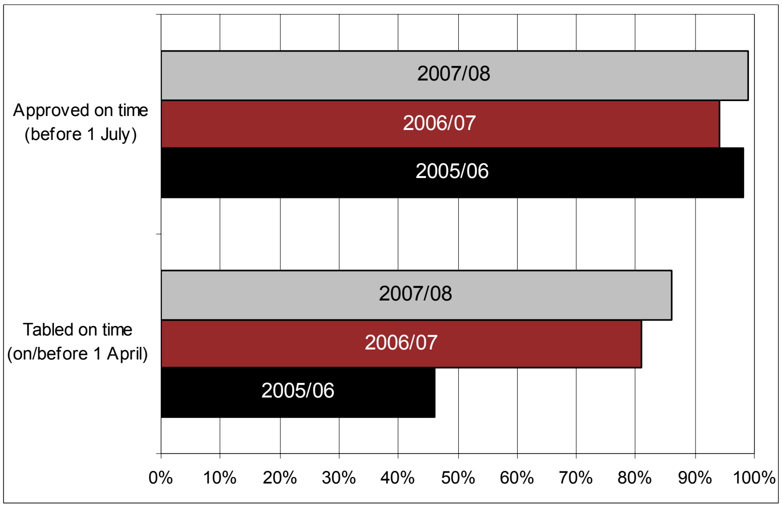
- meeting deadlines for tabling and approving budgets
- establishing a strategic orientation in budgeting
- the credibility of approved budgets relative to actual expenditures.

Meeting deadlines for tabling and approving budgets

The deadlines set out in the MFMA for tabling and approving budgets are minimum requirements

The deadlines set out in the MFMA for tabling and approving budgets are minimum requirements designed to improve planning and consultation processes. The budget must be tabled for consultation at least 90 days (31 March) before the start of the financial year (1 July). It must be considered for approval at least 30 days (31 May) before the start of that year. Finally, it must be approved before the start of the financial year (1 July).

Figure 11.3 Municipalities that tabled and approved budgets on time, 2005/06 – 2007/08



Source: MFMA Research Unit – annual submission of budget survey

Figure 11.3 shows that since 2005/06 there has been a steady improvement in municipalities tabling and approving budgets on time. Despite this, in 2007/08 there were still 40 municipalities that were unable to meet the budget tabling deadlines, resulting in shortened community consultation processes.

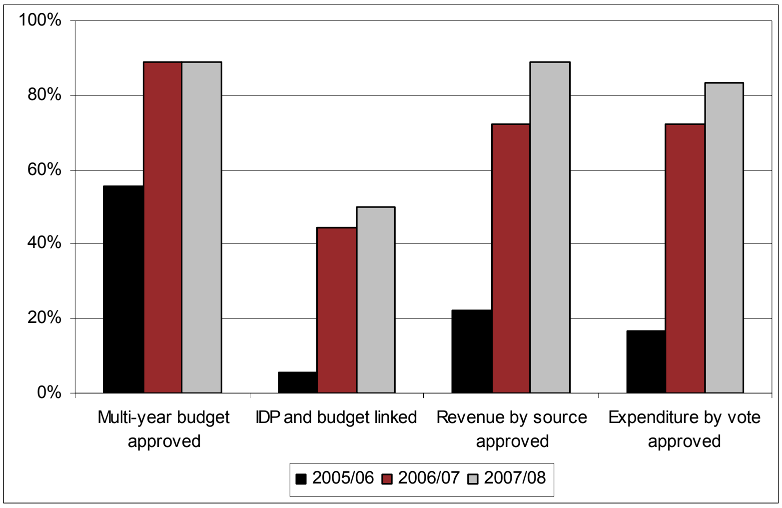
In 2007/08 there were still 40 municipalities that were unable to meet budget tabling deadlines

Establishing a strategic orientation in budgeting

The MFMA requires that municipalities produce multi-year budgets so as to facilitate the consideration of the medium-term implications of expenditure decisions, respond to community needs over time and integrate financial planning with their integrated development planning activities. New budget formats assist this process by requiring that budget information be presented by revenue source and by functional area (or vote). Figure 11.4 shows that there have been significant improvements in the strategic orientation of municipal budgeting in the largest 17 municipalities since the introduction of the MFMA.

The MFMA requires that municipalities produce multi-year budgets

Figure 11.4 Percentage of 17 non-delegated municipalities complying with key budget reforms, 2005/06 – 2007/08



Source: MFMA Research Unit – annual submission of budget survey

Provincial treasuries are currently ascertaining the extent of progress in establishing a strategic orientation to budgeting beyond these 17 municipalities. This work should also include a detailed independent assessment of municipal budgets.

The credibility of budgets relative to actual expenditures

Judging whether a budget is credible is a complex task. A simple but conservative measure has been used here. It compares the original budget to the estimated actual outcomes reported at the end of the financial year for capital and operating expenditures and operating revenues. If the variance is greater than 20 per cent, the original budget is deemed not to have been credible.

A large percentage of municipal budgets tabled are not credible

Based on this analysis, a large percentage of municipal budgets tabled on or before 1 April each year are not credible. Most often they are not properly funded and are treated as unbalanced drafts requiring the council to make decisions to "balance the budget". The MFMA requires that a tabled budget must be capable of being implemented without alteration so to ensure that proper consultation can take place.

Table 11.1 shows that the primary area of weakness is in municipalities' capital budgets. This indicates that municipalities are failing to honour most of their capital investment commitments. Internal factors contributing to this problem include poor project planning for financing capital/infrastructure and slow progress with implementing supply chain reforms at the municipal level. It is clear that many municipalities lack capital budget forecasting capacity and single-year appropriations for capital expenditure projects are still commonplace. External factors include delayed notification of grants from national and provincial departments. The annual Division of Revenue Act has introduced measures to improve the predictability of transfers, particularly the requirement that each transferring department publish a multi-year schedule of transfers for each municipality. However, similar reforms in provinces and district municipalities have not yet been adequately implemented.

Table 11.1 also shows that the credibility of budgeted operating expenditures and revenues is considerably higher than for capital expenditure. However, it is clear that there still needs to be a significant focus on assisting municipalities to develop credible budgets. Further reforms to municipal budget formats and contents are intended to assist in this regard. These reforms are at an advanced stage and are being piloted in selected municipalities.

Table 11.1 Credibility of municipal budgets, 2005/06 – 2007/08

Capacity	2005/06	2006/07	2007/08
Credibility of budgets for capital expenditure[1]			
High	54%	52%	66%
Medium	27%	37%	36%
Low	21%	33%	45%
Total	29%	38%	45%
Credibility of budgets for operating expenditure[2]			
High	84%	86%	84%
Medium	66%	69%	72%
Low	63%	58%	63%
Total	68%	67%	70%
Credibility of budgets for operating revenue[3]			
High	84%	86%	88%
Medium	70%	73%	73%
Low	68%	69%	68%
Total	72%	73%	73%

1. Based on responses from 83 municipalities in 2005/06, 107 municipalities in 2006/07 and 128 municipalities in 2007/08

2. Based on responses from 192 municipalities in 2005/06, 190 municipalities in 2006/07 and 199 municipalities in 2007/08

3. Based on responses from 203 municipalities in 2005/06, 208 municipalities in 2006/07 and 208 municipalities in 2007/08.

Source: MFMA Research Unit - survey

Strengthening oversight through improved transparency and reporting practices

The MFMA requires municipalities to report regularly on performance

The system of reporting in the MFMA assists in making available useful and regular internal and external information on municipal financial performance. Provided the information is accurate and reliable, this strengthens decision-making processes and improves oversight by managers and council.

The reports on the implementation of the budget and the SDBIP required by the MFMA include monthly and quarterly budget statements, half-yearly performance assessment, annual financial statements, annual reports and oversight reports.

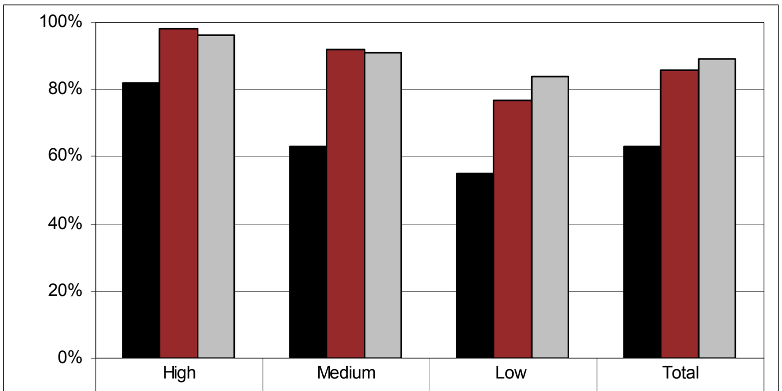
As noted, the implementation of the MFMA was a phased process, so for instance, municipalities with low capacity were not required to produce annual reports until the 2006/07 financial year and in 2004 these municipalities were given an additional month to submit their annual financial statements to the Auditor-General.

In-year monitoring and reporting

The mayor must table monthly budget statements to the council on a quarterly basis

Section 71 of the MFMA requires the accounting officer to submit monthly budget statements to the mayor, who must table these in council on a quarterly basis. Monitoring the implementation of the budget is a key responsibility of the mayor and should ensure that financial problems that a municipality may face are identified early. The council exercises oversight over budget implementation through the quarterly statements tabled by the mayor.

Figure 11.5 In-year reporting by municipalities in terms of section 71 of the MFMA, 2004/05 – 2006/07



	High	Medium	Low	Total
2004/05	82%	63%	55%	63%
2005/06	98%	92%	77%	86%
2006/07	96%	91%	84%	89%

Source: National Treasury local government database

While the timely submission of section 71 reports by accounting officers to the mayor shows an upward trend overall, most of this occurred between 2004/05 and 2005/06, as Figure 11.5 shows. An analysis based on municipality capacity shows that high and medium capacity municipalities experienced a decline in section 71 reporting between 2005/06 and 2006/07. This decline coincides with the 2006 elections period and so could be linked to the instability in management arrangements at the time.

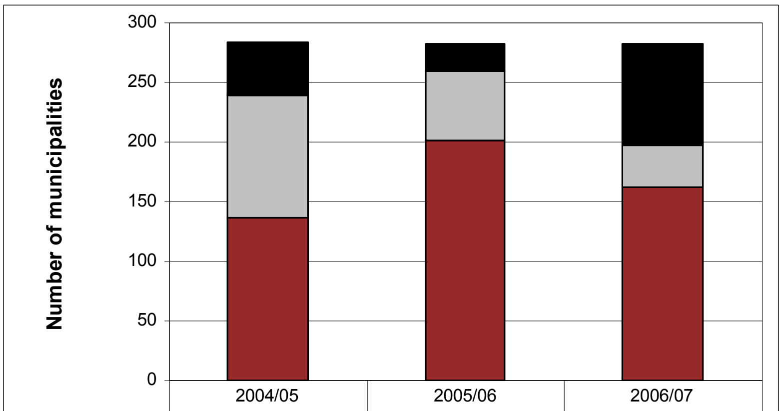
Annual financial statements

The annual financial statements are the most important record of the financial status of a municipality and municipal entity

The annual financial statements are the most important record of the financial status of a municipality and municipal entity. Every municipality and municipal entity must prepare annual financial statements for each financial year and submit it to the Auditor-General for auditing no later than 31 August of each year. In the case of a municipality with municipal entities, the municipality is also required to submit consolidated annual financial statements to the Auditor-General no later than 30 September of each year.

Figure 11.6 shows the extent of compliance with the timeliness for submissions six months after the close of the financial year. The figure shows that the number of municipalities that have not submitted their annual financial statements by January 2008 increased, relative to past years. This reflects a concerning decline in performance.

Figure 11.6 Timely submission of annual financial statements to the Auditor-General by 31 December of each year, 2004/05 – 2006/07



	2004/05	2005/06	2006/07
Non submission	45	23	86
Submitted late	103	59	35
Submitted on time	136	201	162

Source: Report of the Auditor-General on submission of AFS by municipalities, Status of audit reports as at 31 December 2005 for 30 June 2005 and Report on 2004/05 and 2005/06 AFS and Consolidated AFS for municipalities to the Auditor-General as at 31 December 2006 and 2006/07 research undertaken by MFMA Implementation Unit

The MFMA requires high capacity municipalities consolidate their annual financial statements submission with those of municipal entities

The MFMA also requires that, from 2005/06 onwards, high capacity municipalities consolidate their annual financial statements submission with those of their municipal entities. According to information provided by municipalities, of the 35 municipalities with entities, only 8 submitted their consolidated annual financial statements on time, 1 submitted late and the other 26 municipalities did not address the question at all. These discrepancies have been communicated to the Auditor-General, as they paint a worrying picture of financial management practices in relation to municipal entities in particular.

Continued pressure needs to be placed on municipalities that fail, or whose municipal entities fail, to submit their annual financial statements on time. Municipal councils should take action against managers who persistently do not comply with the legal requirements.

Annual reporting

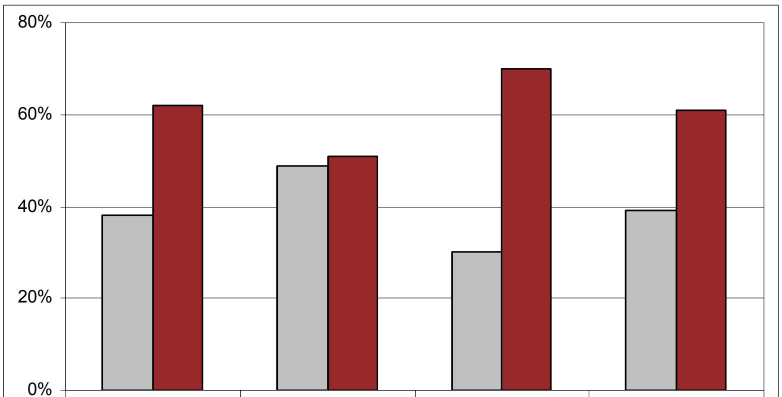
The MFMA requires that every municipality and municipal entity must prepare an annual report for each financial year.

The annual report is the key instrument of transparent governance and accountability

The annual report is the key instrument of transparent governance and accountability and must be used to measure performance for the year. The early completion and submission of annual reports, together with the annual financial statements will facilitate timely and improved information for oversight bodies. Oversight of the annual report represents the final stage in the accountability cycle.

Once approved by the council, the annual report must be placed on the municipal website, made available to the wider community and copies must be sent to various authorities. Figure 11.7 shows municipalities' compliance in tabling annual reports for 2005/06 on time.

Figure 11.7 Tabling of 2005/06 municipal annual reports to council by 31 January 2007



	High	Medium	Low	Total
Yes	38%	49%	30%	39%
No	62%	51%	70%	61%

Source: National Treasury local government database

There was a poor outcome in meeting timelines for tabling the 2005/06 annual report

The poor outcome in meeting timelines for tabling the 2005/06 annual report by municipalities and their entities is disappointing. The general explanation provided by municipalities for non-compliance with tabling annual reports by 31 January, was that audit opinions had not been received from the Auditor-General. Municipalities have been advised to submit their annual reports on time, accompanied by the annual financial statements submitted for audit, pending the audit outcome.

Types of audit opinions expressed by the Auditor-General

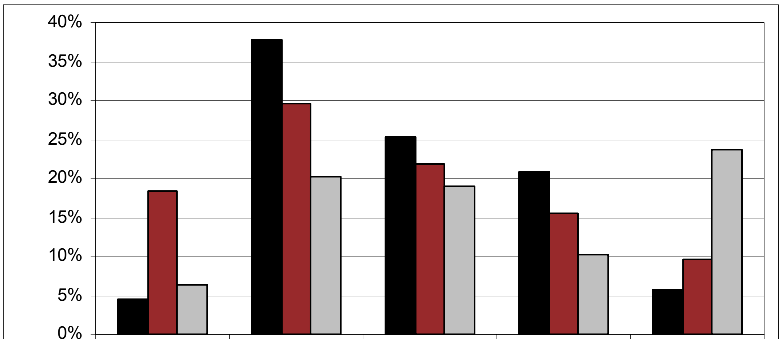
The Auditor-General may express one of four opinions in relation to the annual financial statements, namely unqualified, qualified, disclaimed or adverse. The definitions of the four opinions are:

- ***Unqualified opinion:*** This opinion represents a "clean bill of health" where the annual financial statements are regarded by the Auditor-General as fairly representing the financial status of the municipality or its entity and may include minor issues to be addressed by the accounting officer. This is the best outcome.
- ***Qualified opinion:*** The Auditor-General will issue this type of report when faced with material exceptions to any of the conditions required for issuance of an unqualified report. A qualified opinion is basically a negative opinion. This opinion asserts that the annual financial statements, viewed as a whole, are not misleading. Thus the problems, while material, must not overshadow the overall fairness of the statement.
- ***Disclaimer opinion:*** A disclaimer of opinion means that due to significant scope restrictions (or to major uncertainties) the Auditor-General was unable to form an opinion on the fairness of the financial statements. It means that the Auditor-General does not have an adequate basis for expressing an opinion. This constitutes evidence of financial problems that may require intervention in terms of the MFMA.
- ***Adverse opinion:*** This is a negative opinion, asserting that the annual financial statements are not a fair presentation. Auditors will issue an adverse opinion when the deficiencies in the financial statements are so significant that a qualified opinion would be inappropriate. This also constitutes evidence of financial problems that may require intervention in terms of the MFMA.

Audit opinions issued by the Auditor-General

The Auditor-General's opinion is the most important part of the auditor's report provided to the municipality. The audit opinion results from an independent and often extensive verification process of the annual financial statements and information supporting the annual financial statements.

Figure 11.8 Audit opinions for all provinces, 2004/05 – 2006/07 (expressed as an average)



	Adverse opinion	Disclaimer of opinion	Qualified	Unqualified	Audit report outstanding
2004/05	5%	38%	25%	21%	6%
2005/06	18%	30%	22%	16%	10%
2006/07	6%	20%	19%	10%	24%

Source: MFMA Research Unit
Note: The information on audit outcomes for municipalities is being regularly updated, since the Auditor-General has prioritised the finalisation of outstanding municipal audits. Therefore, information for all 283 municipalities is not used in this analysis. The graph shows a cross-section of municipalities from the nine provinces, covering 269 municipalities for 2004/05, 272 for 2005/06 and 224 for 2006/07.

The extent of the audit qualifications should serve as a reminder of the challenges ahead. On average, 44 per cent of municipalities received an adverse or disclaimed audit opinion for 2004/05, 2005/06 and 2006/07 for those that have received an outcome.

These poor audit outcomes indicate that fundamental principles of good governance, transparency, the accountable use of public resources and ongoing performance improvements, are being severely compromised.

The most common weaknesses requiring attention are in management and accounting skills, shortcomings in operational financial management, lack of internal controls and collection of revenue. For example, during 2006/07, municipalities were requested to indicate whether consultants had been engaged to prepare annual financial statements, either entirely or jointly with municipal officials. Of the 164 municipalities that responded, over one third indicated that they had engaged consultants to prepare the entire annual financial statements for 2006/07.

Internal audit and audit committees

In terms of the MFMA, the municipality and each of its municipal entities must have an internal audit unit and an audit committee which must prepare a risk-based audit plan and internal audit programme for each financial year.

The municipality and each of its municipal entities must have an internal audit unit and an audit committee

The establishment of internal audit units and audit committees are issues that National Treasury is currently monitoring. By 2006/07, 204 municipalities had established an internal audit unit and 172 had established audit committees.

More municipalities are able to comply with establishing an internal audit unit than an audit committee. This can partly be ascribed to the unavailability of appropriately skilled members to serve on the audit committees of the more remote municipalities. Where municipalities are experiencing scarce skills, they have been advised to share the committee structures within a district, if possible.

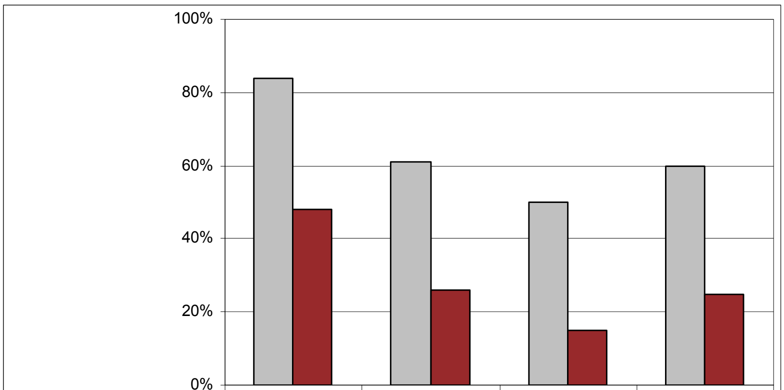
Information for public participation and disclosure on municipal performance

A municipal website should be an integral part of a municipality's communication infrastructure and strategy. If managed effectively, it allows easy access to relevant information, serves as a tool for community participation, improves stakeholder involvement and facilitates stakeholder monitoring and evaluation of municipal performance. Section 75 of the MFMA requires that the municipalities place key documents and information on their website, including the IDP, the annual budget, adjustments budgets and budget related documents and policies.

A municipal website should be an integral part of a municipality's communication infrastructure and strategy

Figure 11.9 shows that 60 per cent of municipalities have established websites, but that only 25 per cent of them actually show all the information on their websites required in terms of section 75. Municipalities have been encouraged to utilise the funding support for the financial reforms to fund these facilities.

Figure 11.9 Municipalities with websites, 2006/07



	High	Medium	Low	Total
Municipalities with websites	84%	61%	50%	60%
Municipalities displaying section 75 information	48%	26%	15%	25%

Source: National Treasury local government database

A broad-based strategy to encourage all municipalities to establish websites is necessary, as this is one of the most powerful tools they can use to facilitate investments, assist in community participation, offer easy access to information and improve transparency.

Strengthening the regulatory environment for municipal financial management

The key reforms focussed on strengthening the regulatory environment for municipal financial management deal with:

- supply chain management
- oversight of municipal entities
- interventions in municipalities

Supply chain management

Municipalities need to have well run supply chain management operations that widen the supplier base, improve local economic development and provide scope for equitable resource allocations.

A new supply chain management system was introduced for municipalities and municipal entities during 2005 and 2006

A new supply chain management system was introduced for municipalities and municipal entities during 2005 and 2006. They were assisted with the development of appropriate policies, plans and processes; setting up structures for clear roles and responsibilities; and key threshold values. This was supported by sample bid documentation, a procurement manual and training for bid committee members.

Table 11.2 shows the extent to which the supply chain management reforms are being implemented. Note that this table only covers 111 (or 39 per cent) of municipalities. The remaining ones did not respond to National Treasury's research survey.

Table 11.2 Responses to key SCM implementation indicators

	High capacity				Medium capacity				Low capacity			
Question asked	**Yes**	**%**	**No**	**%**	**Yes**	**%**	**No**	**%**	**Yes**	**%**	**No**	**%**
Adoption of SCM policy by the Council	21	*91%*	2	*9%*	34	*85%*	6	*15%*	47	*98%*	1	*2%*
Delegation of SCM roles and responsibilities (in writing)	18	*78%*	5	*22%*	21	*53%*	19	*47%*	29	*60%*	19	*40%*
Development of a SCM procedure manual	15	*65%*	8	*35%*	18	*45%*	22	*55%*	20	*42%*	28	*58%*
Bid Committee membership	21	*91%*	2	*9%*	31	*78%*	9	*22%*	40	*83%*	8	*17%*
Training of SCM practitioners	11	*48%*	12	*52%*	34	*85%*	6	*15%*	34	*71%*	14	*29%*

Source: National Treasury SCM Unit

The relatively high level of compliance probably reflects the fact that only those municipalities that have made progress with the supply chain management reforms responded to the questionnaire. Nevertheless, it is evidence that the model supply chain management policy issued in support of the framework, assisted in the implementation of the policy.

However, challenges remain in practitioners' understanding and capacity to effectively plan their internal processes to expedite supply chain outcomes. A concerted effort to train supply chain management practitioners started during 2006 and 2007, when over 4 500 officials were trained. Furthermore, a formal qualification supporting supply chain management is being prepared for rollout during 2008.

Oversight of municipal entities

Municipalities are required to report to National Treasury on all municipal entities, including those in existence before the new regulatory framework provided by the MFMA and the Municipal Systems Act (2000) (MSA) came into effect.

In February 2007, a total of 95 municipal entities were reported on, of which 45 were in Gauteng, 16 in the Eastern Cape and 15 in KwaZulu-Natal.

In February 2007, a total of 95 municipal entities were reported on

The effect of the change in the legal framework in 2003 has resulted in an extensive review of existing entities by most municipalities and it is envisaged that in the reporting periods that follow the total numbers will fall.

Intervention in municipalities

The MFMA provides for intervention by national and provincial departments in municipalities that are experiencing persistent financial problems. These problems are often manifested as financial emergencies and result from weak financial management and poor practices.

The MFMA provides for intervention in municipalities that are experiencing persistent financial problems

The municipal finance recovery service was established in National Treasury in August 2007. Its function is to:

- provide guidance to other departments
- prepare the financial recovery plan on request by municipalities and government departments
- monitor the implementation of the recovery plans
- assist in identifying the causes and provide potential solutions to the financial problems, in co-ordination with any other provincial or national efforts
- collect information on municipal financial problems
- give guidance on the best approaches to address these challenges.

Research into recent interventions shows that for the period 2004 to 2007, there have been 34 interventions in municipalities, of which 13 show early signs of good progress. Results were mixed for the remaining 21 municipalities receiving attention, for a variety of reasons. Interventions tend to focus on budgets, revenue collection, cash flow management, internal controls, improvement to internal reporting and timely decision-making, strengthening governance and oversight and developing operational skills to execute daily tasks. Informed by the research and the outcomes of visits to municipalities, a guide in support of future interventions is being prepared.

Institutional strengthening and capacity building

There is a general lack of the technical skills and knowledge necessary for performing key duties in financial management from an operational perspective. This is seen as a major constraint and one of the biggest challenges facing municipalities. These technical skills include planning, engineering, project management and plant operating. Inadequate capacity at the senior management level and a lack of appropriate financial management skills in municipalities results in poor service delivery. Furthermore, a high turnover of senior management in municipalities is a major issue affecting municipalities' ability to expand and improve service delivery.

The financial management support programme has been providing support to municipalities since 2003

The financial management support programme for municipalities has been providing support for local government financial management reforms since 2003. It was targeted at the larger municipalities, which had greater capacity to implement the reforms as they were phased in.

The programme operates through the provision of grants and technical advisors to municipalities to assist in implementing the MFMA. A quarterly MFMA co-ordination committee, representing national and provincial departments and SALGA, was established in 2004, to receive updates on progress in implementing the financial reforms and assist in addressing challenges in a coherent and sustainable way.

Specific programmes to build financial management capacity include:

- the finance management grant (FMG)

- financial advisors through the municipal financial management technical assistance programme (MFMTAP)
- the municipal finance management intern programme (MFMIP).

Finance management grant

Direct financial assistance has been provided to municipalities in the form of the finance management grant (FMG). The main objective is to assist in the rollout of financial management reforms embodied in the MFMA through building capacity in financial management.

Initially the primary focus of the programme was the metros and the 21 secondary cities. Support was also provided to smaller municipalities and districts to ensure a cross-section of types of issues and capacities and to cover all provinces.

Since 2005, greater attention has been paid to expanding the reform programme to smaller municipalities and specifically those municipalities in areas of extreme poverty and where institutional capacity is lowest. From July 2006, all 283 municipalities received funding to support the implementation of basic aspects of the MFMA and to employ graduate financial management interns with the view to offering them permanent opportunities once their internship has been completed.

Since 2005, greater attention has been paid to expanding the reform programme to smaller municipalities

Finance management technical assistance programme

The finance management technical assistance programme, which ran from 2003 to 2008, helped to accelerate the implementation of reforms by placing international municipal finance experts in selected municipalities, in some cases for up to five years. Programme advisors have worked hand-in-hand with councillors, municipal managers, chief financial officers and financial management staff to progressively implement the priority reforms in the MFMA. Under this programme 41 municipalities were provided with technical assistance in implementing reforms. This programme closed in May 2008.

Municipal finance management internship programme

The municipal finance management internship programme (MFMIP) started in 2005. It is designed to provide graduates in the fields of accounting, economics and finance with well structured training and work experience in all aspects of municipal financial management. The average cost per intern, for the two-year period, amounts to around R215 000.

The goal is for each municipality to appoint a minimum of 2 interns. Table 11.3 shows the current participation rate split per capacity of municipality.

Table 11.3 Municipal participation in the internship programme

Capacity	Number of municipalities	Municipalities with one intern		Municipalities with two or more interns		Average interns per municipality
		Number	%	Number	%	
High	50	7	14.0%	37	74.0%	2.5
Medium	107	16	15.0%	71	66.4%	1.3
Low	126	26	20.6%	65	51.6%	1.7
All	**283**	**49**	**17.3%**	**173**	**61.1%**	**2.0**

Source: MFMA Research Unit - survey

Once interns have completed their internships, it is hoped that most of them will be employed by municipalities

Once interns have completed their internships, it is hoped that most of them will be employed by municipalities thus improving financial management capacity in local government. To review the retention of interns in the local government a survey was conducted to trace the movement of interns whose contracts had ended. A total of 94 internships have ended so far. Of these, 54 were employed on a permanent basis either by their municipality or another municipality. This number could be higher as some of the 22 interns could not be traced. Of the remaining 15 interns, 3 remained in the public sector, while 12 were employed in the private sector.

A review of the financial management support programme for municipalities is currently under way and preliminary findings suggest that more of this kind of assistance would be useful.

The scaling-up of support for weaker municipalities will be very closely linked to ensuring capacity grows as support resources are increased. For example, key finance positions needed to implement the reforms under the MFMA must be filled before additional support is initiated. This is to ensure that resources are available to undertake effective learning and skills development.

Conclusion

A firm foundation of financial management systems and capacity is key to the successful implementation of infrastructure programmes, service delivery expansion efforts, improvements in the level, reliability and frequency of services. It is therefore absolutely critical that the correct skills, mindset and expertise are located at the right place to implement the duties required for the modernisation of the local government sphere. If this is not in place, then there are likely to be more interventions in municipalities to address such weaknesses, before any changes for the better become evident.

Further measures will have to be considered as to how best to enforce compliance with the legal framework and to build on the key principles espoused to promote good governance, public accountability and transparency in the use of public resources. A combination of measures, such as withholding transfers, implementation of the code of conduct for municipal councillors and officials, withholding performance bonuses when service delivery fails will need to be introduced.