NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER: 2821 [NW3284E]

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Mr N Singh (IFP) to ask the Minister of Finance:

Whether he intends to introduce a change in the date of the financial year end of municipalities to 31 March to bring it in line with the national financial year end; if not, why not; if so, what are the relevant details?

NW3284E

REPLY:

1. Introducing a common financial year across the three spheres of government has been considered previously and the overall benefits of introducing such a change to the system and local government particularly have been debated.
2. On the one hand, aligning the financial years across government would seek to resolve some of the challenges generally associated with aligning funding allocations, planning for service delivery across spheres, increasing accountability for government spending and so forth.
3. On the other hand, when the practical challenges associated with implementation were considered, it was agreed that a common financial year would present a number of difficulties for national, provincial and local government.
4. One of the first considerations was that the complexity of co-ordinating budget processes across the three spheres of government would increase significantly. This would inadvertently pose several risks. The co-ordination of the national and provincial budget process is already complex and simultaneously including local government into this process, while ensuring that the prescripts of the MFMA are met, would only pose further complications to the system.
5. Secondly, municipalities require certainty on national and provincial allocations to be received before including operating and capital grants in their respective budgets. This means that all allocations must first be gazetted before a municipality can conclude their budgets for tabling in Council. This implies that there would be no space available for this key development should a common financial year across the three spheres of government be considered.
6. Thirdly, the local government budget process is a ten-month long process with community and stakeholder consultation forming an integral part of municipal budgeting. Municipal budgets need to respond to community needs and municipal legislation, such as the Municipal Systems Act and the MFMA prescribe the conditions and timeframes for such consultation. Aligning financial years would require that timeframes for consultation be shortened thereby comprising community participation.

7. Fourthly, substantial changes will be required to existing legislation and current processes. These include:

   a. the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), including supporting regulations, circulars and guidelines, as all timeframes in the Act are premised on the municipal financial year running from 1 July to 30 June;
   b. The Bulk price increases for municipal services, such as electricity and water, as regulated by NERSA and the Minister of Water Affairs, must also be published by 15 March to take effect from the next municipal financial year (except if the Minister of Finance approves a later date in terms of section 42(5) of the MFMA). Municipalities will only be able to produce credible budgets if these allocations and costs are appropriately factored into their budgets. As Eskom and water boards are also subject to the April to March deadlines, it will be very difficult to shift these deadlines forward. Municipalities will accordingly have to budget for these increases based on historical trends and uncertain forward projections; and
   c. The Municipal Fiscal Powers and Functions Act, 2007 (Act No. 12 of 2007), the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) and the Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004), and the regulations made in terms of the Municipal Property Rates Act, as these Acts are also premised on the current municipal financial year running from 1 July to 30 June.

8. A further consideration is that the Office of the Auditor-General will not have adequate capacity to undertake an audit of all 700 institutions in national, provincial and local government within the legislated timeframes. This will result in a delay in audit outcomes and impact on the oversight responsibilities of Parliament.