

**NATIONAL COUNCIL OF PROVINCES**  
**QUESTION FOR ORAL REPLY**  
**QUESTION NUMBER: 183 [CO571E]**  
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**183. Mr M H Mokgobi (ANC-Limpopo) to ask the Minister of Finance:**

Whether, with regard to local government management reform, the National Treasury has developed a monitoring system and/or other measures that will (a) act as an early warning system to identify municipalities which are at risk and/or in financial distress and (b) capacitate provinces to use early warning systems timeously in order to support municipalities before they reach financial meltdown; if not, (i) why not and (ii) what are the National Treasury's plans and strategies in this regard; if so, what are the relevant details?

CO571E

**REPLY:**

**a)**

In 1997/98 national and provincial government overspent their budgets by an aggregated R5.8 billion which essentially resulted in Cabinet formally instructing the National Treasury to institute not only monitoring and oversight mechanisms but also establish an 'early warning system' for the whole of government as it relates to budgets and spending implementation. This requirement has later translated into the legislation in the form of section 32 of the PFMA and Section 71 of the MFMA.

So yes, National Treasury undertakes a range of measures and strategies to monitor and assess government spending so as to improve results including municipalities. In addition to compliance with the comprehensive legal requirements regarding the consolidation and publication of revenue and expenditure data across all spheres of government (in terms of the PFMA, MFMA and DORA), National Treasury regularly undertakes a range of additional analyses of expenditure and performance information specifically developed to produce better spending outcomes for both national, provincial and local government.

The National Treasury has undertaken various reforms as it relates specifically to local government in strengthening the entire municipal accountability cycle; recent reforms includes among others, the implementation of a budgeting, in-year performance and grant monitoring system. To this end, budget and financial information is consistently analysed and published in various forms, including:

- Consolidated medium-term revenue and expenditure (MTREF) budget information for all 278 municipalities;

- Quarterly Section 71 Publications (Actual performance against the adopted budgets of municipalities which includes conditional grant financial performance) including a formal press release;
- Over and under expenditure report which is tabled in Parliament;
- Annual State of Local Government Finances and Financial Management Report; and
- Biennial Local Government Budget and Expenditure Review.
- Quarterly and Annual Consolidated Report on MFMA Implementation, and
- Correspondences to PTs and Municipalities based on assessment of MFMA section 41 reports (Actual amounts owed by municipalities to bulk supplies- Water Boards and Eskom) and guidance on corrective measures,

A financial assessment tool has been developed to assist in decision making on appropriate interventions (support, discretionary and mandatory) to be carried in the implementation of chapter 13 of MFMA linked with section 139 of the Constitution. Training has been provided to the Provincial Treasuries in the use of the tool. In addition, National Treasury has developed a set of uniform key financial ratios and norms suitable and applicable to different municipalities and municipal entities. This is to be progressively implemented from 2014 and will contribute positively towards municipalities, provinces and oversight institutions identify financial challenges in municipalities and to assist in corrective actions. The Circular covers various aspects of a municipality's finances, such as financial position, financial performance and budget implementation, so that these can be used as part of in planning, in-year and end of the year analysis.

Furthermore, the municipalities are proactively provided with advice and guidance through correspondences which include regular issuing of MFMA Circulars and implementation guidelines.

In addition to the monitoring function established through the budgeting, in-year reporting and grant framework, the National Treasury has also established formal institutionalised engagements with the 17 non-delegated municipalities (these 17 municipalities represent approximately 71 per cent of local government spending power and comprise the 8 metros, 9 secondary cities and 1 district); the remaining 261 municipalities have been delegated to the respective provincial treasuries in executing this monitoring and oversight role. The engagements are:

- Annual Municipal Budget and Benchmark Engagements – Objective of the engagements is to independently and objectively analyse and assess the draft municipal budgets before they are tabled before to respective municipal councils for consideration; and
- Annual Mid-year Budget and Performance Assessment visits – Objective of these engagements is to independently and objectively analyse and assess the half yearly performance by the municipalities with the implementation of their adopted budgets prior to them undertaking adjustments to their MTREF budgets. These visits are supported by actual site visits to determine value for money.

Importantly, both these engagements are concluded by the National Treasury issuing a formal report containing findings and recommendations for consideration by the respective councils. The provincial treasuries are also in the process of replicating this leading practice with the support of the National Treasury and some provinces have made significant progress in this regard.

- The National Treasury also has established Joint MFMA quarterly meetings constituted by (National Treasury, Provincial Treasuries, and National and Provincial Department of Co-operative Governance, Salga) to improve coordination of Municipal Finance Management Act (MFMA) implementation across government. In order to address the requirement to monitor MFMA compliance, and to provide relevant information in this regard MFMA implementation monitoring system has been developed to measure MFMA compliance. The findings are shared with municipalities and guidance provided for corrective measures. Regular Chief Financial Officers Forum is also used to discuss amongst other issues related to financial accounting, reporting, auditing and MFMA interpretation.

National Treasury is concluding a project on the development of Financial Management Capability Maturity Model for municipalities and entities. The tool will be used amongst other to measure the financial management capability in municipalities and direct support to address weaknesses.

Currently the National Treasury is in the process of finalizing a standardised classification framework for local government through the regulation of a 'standard chart of accounts' (SCOA) for municipalities. Uniform expenditure classifications have already been established and implemented for national and provincial government. The proposed regulations provide for a SCOA for local government in similar form to that implemented in the other spheres. The object of these Regulations is to provide for a national standard for the uniform recording and classification of municipal budget and financial information at a transaction level by means of the prescription of a standard chart of accounts for municipalities, aligned with prescribed budget formats and accounting standards. This provides for the availability of uniform information sets recorded in terms of national norms and standards across the whole of government for the purposes of national policy coordination and reporting, benchmarking and performance measurement in the local government sphere. The introduction of a uniform classification framework provides for the continuous improvement in the quality, content and credibility of financial reporting not to mention improved transparency, accountability and overall governance. The draft Regulations were published for public comment on 3 September 2013 and it is envisaged that the Regulations will be promulgated in January 2014. The full implementation of SCOA will significantly increase the credibility and reliability of municipal information and subsequently further strengthen the 'early warning system'.

**(b)**

As discussed above, the NT introduced a municipal finance reporting system which keeps government abreast of important financial developments in local government and provides early

warning of financial difficulties at the municipal level. The system is underpinned by the MFMA and subsequent financial management reform programmes, with its main goal being to improve municipal budgeting and financial management. Provinces are being equipped to use these systems to strengthen oversight on municipal finances.

Development of the local government database that hosts the municipal finance reporting system started in 2002. A phased-in approach was followed to train and guide municipalities and provinces to report in compliance with Section 71 of the MFMA. Currently all 278 municipalities are consistently in the reporting net and are submitting the required financial reports to the Local Government database on a monthly, quarterly and yearly basis

The Local Government Database and system currently has 337 registered users. The primary users of the database are officials of National and the provincial treasury. All registered users use the database to track progress of reporting and to draw analysis reports which is available per municipality and also in aggregate. Access to the database and reporting system is very mobile and can be used where internet connectivity is available. The National Treasury also directly supports the PT's with continuous training as it relates to the LG Database and use of the Database as an 'early warning system'.

