NATIONAL TREASURY

Press release on the Municipal Finance Management Bill

31 August 2001

The Minister of Finance will be submitting the Municipal Finance Management Bill for tabling in Parliament this week. It was approved by Cabinet on 9 August 2001. The Bill will be gazetted by today. It was initially gazetted on 28 July 2000 for public comment.

The Bill extends the philosophy of the Public Finance Management Act to local government. It improves governance over municipal entities. Should Parliament approve pending constitutional amendments, the bill will enable municipalities to borrow longer and cheaper. It also governs municipal financial emergencies.

BACKGROUND

The MFM Bill is a critical element in the transformation of local government. The Bill adds to the suite of recent local government legislation:

A the Municipal Structures Act

B the Municipal Systems Act

C the coming Property Rates Bill

The MFM Bill and the "*Policy Framework for Municipal Borrowing and Financial Emergencies*" were originally published for public comment on 28 July 2000 in Government Gazette No 21423.

OBJECTIVES OF THE BILL

The Municipal Finance Management Bill is aimed first at modernising municipal budgeting and financial management. Secondly, the Bill facilitates the development of a long-term municipal lending/bond market. Thirdly, it introduces a governance framework for municipal entities.

Constitutional requirement

The MFM Bill gives effect to various sections in Chapter 13 of the Constitution and more specifically sections 215, 216(1), 217 and 230 and implements the previously approved borrowing policy framework. In particular, section 216(1) requires national legislation to "ensure both transparency and expenditure control in each sphere of government, by introducing -

A generally recognised accounting practice;

B uniform expenditure classifications; and

C uniform treasury norms and standards".

PFMA type objectives

Like the PFMA, the basic philosophy underlying the approach to municipal finance is to improve financial management, and to foster greater transparency. The bill also clarifies the responsibilities of political office-bearers and officials. The accountability arrangements are spelled out clearly, as the Bill enables "managers to manage and be held accountable," while the executive and council are responsible for setting overall policy and priorities for the municipality.

Municipal entities.

The Bill provides a clear framework for entities created by municipalities. The Bill complements Government's work on Municipal Service Partnerships and Public/Private Partnerships and enables the restructuring of municipalities through the formation of corporate entities. It prohibits the creation of municipal entities for investment, speculation or to avoid regulations. The Bill also promotes transparency and accountability of municipal entities through improvement in the reporting, auditing and governance requirements.

Municipal Borrowing

Section 230 of the Constitution grants municipalities the right to borrow and states that these rights will be regulated by national legislation. The Bill aims to restore municipal access to capital markets by clarifying the legislative framework and the rights of borrowers and lenders.

The municipal debt market has stagnated since 1994. Studies conducted by the National Treasury indicate that between March 1997 and March 2001 direct private sector lending to municipalities declined while public sector lending increased. Further, the volume of tradable municipal securities has been declining steadily. The long-term debt market – which is especially important for providing financial resources to municipalities for investment in infrastructure that is critical to both economic and social development (water, electricity, roads and waste) – has largely dried up.

Without a clear borrowing framework for municipalities, local government will not be in a position to take advantage of the benefits of participating in the capital markets to finance infrastructure spending, the benefits of which accrue to present and future users of such infrastructure. If creditworthy municipalities were able to attract long-term private capital, the national government would then be able to direct more resources to infrastructure extension and poverty relief in municipalities that cannot attract private capital. The Municipal Finance Management Bill creates an environment for financially healthy municipalities to enter long term capital markets.

Financial emergency provisions

The Bill's provisions on financial emergencies are grounded in the "Policy Framework" mentioned above. These provisions are urgently needed both to assure citizens that services will continue in a crisis and to help municipalities attract private sector investment. These provisions deal with the rare case of a municipality which is both in extreme financial distress and unable to manage its own way back to financial health. The Bill provides for the declaration and termination of a financial emergency by the High Court on application of the municipality itself, government, creditors, or other stakeholders. A Municipal Financial Emergency Authority (MFEA) would then appoint a financial administrator to develop and implement a recovery plan, in consultation with the municipality and all stakeholders. Extraordinary relief, including restructuring of debt, can be granted in exceptional circumstances.