

NATIONAL ASSEMBLY

QUESTION FOR ORAL REPLY

QUESTION NUMBER: 164 [NO2413E]

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Mr N J J van R Koornhof (Cope) to ask the Minister of Finance:

What steps does he intend to take to ensure a better and correct spending pattern of local government, in light of the recent announcements by the Auditor-General on the financial affairs of local government?

NO2413E

REPLY:

Firstly, the role of the National Treasury with regard to local government finances is founded in Section 216 of the Constitution, Section 49 of the Municipal Structures Act (Act 117 of 1998) and the Municipal Finance Management Act (Act No. 56 of 2003). Section 216 of the Constitution requires the National Treasury to prescribe measures to ensure both transparency and expenditure control in each sphere of government. The enactment of the MFMA in 2003 has effectively laid this foundation for increased transparency and accountability in municipal finances complemented by significant reforms to the reporting and information management requests of local government. National Treasury has promulgated several sets of regulations (Municipal Budget and Reporting Regulations, Supply Chain Management Regulations, asset management regulations, etc.) and established a local government database to facilitate improved reporting and transparency of local government financial information.

Secondly, National Treasury coordinates fiscal relations between the different spheres of government in terms of the Intergovernmental Fiscal Relations Act, 2007 (Act No. 97 of 1997), coordinates inputs into the Division of Revenue, prepares the annual Division of Revenue Bill and develops the framework for managing conditional grants. Effectively, National Treasury puts together the fiscal framework, but ***sector departments have the responsibility to transfer funds (as National Transferring Officers) and ensure that spending takes place in accordance with the conditions specified in the policy and grant frameworks.***

The responsibility to ensure better and correct spending patterns in local government is spread amongst the various spheres of government and government departments.

However, in the context of the National Treasury's roles and responsibilities, some of the specific interventions put in place to achieve better and improved spending by local government include:

- a. Assessing municipal budgets prior to adoption by Municipal Council to ensure that they are credible, sustainable, funded and aligned to the service delivery objectives of government. This is done jointly by National and provincial treasuries. The purpose of this exercise is to ensure that budgets are aligned to the service delivery objectives of government, that there is adequate funding in terms of cash to implement these budgets and that municipal policies and pricing do not jeopardise the financial sustainability of the municipality;
- b. Conducting mid-year budget and performance assessments to ensure that spending is taking place according to plan and municipalities are collecting adequate revenue to give effect to their legislative and constitutional responsibilities. This is also done jointly by the National and Provincial treasuries;
- c. National Treasury also partnered with SALGA after the last local government elections to undertake financial management training for all newly elected councillors. More than 10 055 councillors were trained across the country and each councillor was provided with a handbook to guide in the execution of his or her responsibilities;
- d. In addition to the general training of councillors, specific training was conducted for MMC's for finance and members of the finance portfolio committees in local government;
- e. National Treasury also publishes a range of information on its website, the collection of which is facilitated through the local government database. One of the routine publications is the quarterly S71 reports which provide information regarding the in-year performance of municipalities and is widely used by local government analysts, sector specialists and decision makers;
- f. A State of Municipal Finances report is also compiled by National Treasury highlighting general trends in municipal finances and identifying specific municipalities that are considered to be in "distress" based on key indicators used by the National Treasury. This report is intended to inform the specific interventions required;
- g. Publication of the Local Government Budgets and Expenditure Review on a bi-annual basis highlighting past and future performance over a seven year period;
- h. Implementation of the Safety Web System for conditional grant allocations to ensure that transfers are aligned to the municipal budget and planning processes. The Safety

Web System also assists in ensuring that municipalities receive their allocations in terms of the payment schedule; and

- i. National Treasury has allocated funds to build capacity of the MFMA Implementation Units within provincial treasuries. This will ensure that provincial treasuries are better able to carry out their constitutional responsibility to monitor and provide support to the municipalities.

We are also working on providing Local Government with a Standard Chart of Accounts (SCOA), improving revenue management capabilities, assisting with pricing and costing of local government services and providing a possible systems solution for local government. All of these initiatives will enable better monitoring and oversight over local government spending patterns.

Finally, municipalities are an independent sphere of government operating through powers assigned to them by the Constitution and relevant local government legislation. ***It is therefore the responsibility of the Municipal Council to ensure that there is sound governance and service delivery within a municipality.*** Councils are expected to meet regularly and take informed decisions to improve spending and service delivery within a municipality. The Municipal Finance Management Act (Act No.56 of 2003) otherwise referred to as the MFMA, puts in place the financial governance framework needed to facilitate such oversight and decision making by Council.

It must be noted that the role of National Treasury is to ensure the availability of funding in accordance with the terms and conditions of the annual Division of Revenue Act and to facilitate the transfer of such funding. Furthermore, National Treasury works closely with sector departments to fulfil its oversight and monitoring responsibilities in respect of local government's compliance to the legal framework. The relevant information is available to the municipal council and to the various committees in Parliament so that they are better equipped to exercise their powers and functions assigned in terms of the Municipal Structures Act.