

A new role for provincial treasuries

Municipal Finance Management Act

The Municipal Finance Management Act (MFMA) gives provincial treasuries an important role in supervising municipalities.

Whereas the provincial Departments of Local Government were responsible in the past for most aspects of local government, including monitoring municipalities' financial well-being, provincial treasuries will now perform important functions with regard to monitoring of, and intervening in, municipalities.

Monitoring

The primary duty of monitoring the financial well-being of municipalities now falls on the Provincial Treasury (PT). In a number of cases the monitoring role overlaps with that of the National Treasury (NT). In general, the PT must monitor:

- compliance with the Act by municipalities and municipal entities;
- municipalities' budget preparation;
- the monthly outcomes of these budgets; and
- the submission of the various financial reports required from municipalities.

Bank accounts

The municipal manager must submit to the PT and the NT the name and number of the municipality's primary bank account. The PT must also be notified of any new bank account.

Annual budget

The annual draft budget must be submitted to the NT and PT, as must the approved budget.

The mayor must inform the MEC for Finance if non-compliance is pending with regard to the rules relating to the tabling or approval of the budget. Both the NT and the PT must be informed if there is actual non-compliance with these rules. However, when the municipality does not approve an annual budget or encounters a serious financial problem, the MEC for Local Government must be informed.

The municipality must provide a monthly report to the PT on the state of its budgeted revenue and expenditure. Likewise, a mid-year budget and performance assessment must be submitted to both the NT and the PT. Only the PT must be informed in the event of the municipal council's failure to adopt or implement a budget-related policy or a supply chain management policy. The PT must also be notified if the municipality is unable to comply with its responsibilities under the Act.

Annual report

The municipality's annual report must be submitted to both the PT and the provincial department responsible for local government

Financial problems

If a municipality is unable to meet its financial commitments and seeks a stay of legal proceedings against it, or is applying for extraordinary relief against its creditors, both the PT and the provincial Department of Local Government must be notified.

Issues

The NT, PT and the provincial Department of Local Government department will monitor

key points

- Provincial treasuries will perform important functions with regard to monitoring of, and intervening in, municipalities.
- In a number of cases their monitoring role overlaps with that of the National Treasury.
- With two provincial departments interacting with municipalities, good communication, coordination and cooperation will be required between them.

municipalities.

The following issues thus need to be addressed:

- If information is to be provided to both the PT and the NT, will one of the two see itself as a post-box, and thus not feel compelled to act upon the information? Will they perform their duty to both analyse information and act on receipt of reports?
- Will the allocation of responsibilities to more than one department result in unnecessary duplication of personnel, analysis and filing systems at both national and provincial levels?

Support

The PT must assist municipalities to prepare budgets. It may also, along with the NT, assist in training finance officials, including those involved in supply chain management. To ensure that the requisite training does in fact take place, coordination between the two spheres will be essential.

Intervention

In terms of section 139 of the Constitution it is the provincial executive's responsibility and power to intervene in a municipality. The MFMA further regulates these interventions. Powers and specific duties are given to the PT and the provincial Department of Local Government. Where a municipality has not adopted a budget, and the province has intervened by dissolving the council and imposing a temporary budget, the MEC for Finance must approve withdrawals from the municipality's bank account against this budget. If

a municipality does not submit financial statements or table an annual report, the MEC for Finance may take appropriate steps against the municipality. In the case of a mandatory intervention following a financial crisis, the provincial executive refers the matter to the MEC for Finance. In the case of a discretionary intervention, the matter is in the hands of the MEC for Local Government.

In bringing the PT into the intervention process, the following issues must be addressed: First, there should be effective coordination between the PT and the provincial Department of Local Government in monitoring and reacting to financial difficulties municipalities may experience. Second, both departments will have to budget for interventions under the Act.

Comments

As a result of the amendments made to the MFMA in November 2003, the provincial treasuries have been given an important role in supervising local government. Two comments are pertinent: First, the basis of the MFMA and the allocation of specific responsibilities to the PT and NT is that these institutions are better equipped to handle financial matters. This presupposes that a clear distinction can be made between finances and other activities. However, it can be highly problematic in practice to make this distinction. The drive is towards greater integration between budgets and activities. This is indeed the very purpose of integrating the IDP with budgets.

Second, with both the PT and provincial Department of Local Government concerned with a municipality's well-being, good communication, coordination and cooperation between them will be required.

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The Act is expected to be signed into law by mid-February and will most likely come into effect on 1 July 2004.
See the next *Bulletin* or the website for further implementation details.