

Phasing in the Municipal Finance Management Act

The Municipal Finance Management Act, which was adopted by Parliament on 26 November 2003, took effect on 1 July 2004. It seeks to modernise and improve financial governance in all municipalities. Together with the Municipal Systems Act, it clarifies the roles and responsibilities of executive and non-executive councillors and officials, modernises budgeting and financial management practices and improves governance over municipal entities.

However, its implementation will be phased in over a few years to allow municipalities and other stakeholders adequate time to fully implement the reforms.

This will be done in three ways. First, some sections of the Act will only come into operation on a later date. Second, some classes of municipalities will be exempted from the operation of the Act for a limited period. Third, individual municipalities may apply to the Minister of Finance to be exempted from the operation of specific sections.

Phasing in sections of the Act

On 1 July most of the Act came into operation. The remaining sections come into operation as follows:

1 December 2004

- Section 62(1)(f)(iv), providing that a municipality must ensure that it has and implements a supply chain management policy in accordance with chapter 11;
- Section 71, concerning monthly budget statements;
- Sections 110 to 116, dealing with supply chain management; and
- Section 120, dealing with the conditions and process for public-private partnerships.

1 April 2005

- Section 9, concerning bank account details to be submitted to provincial treasuries and the Auditor-General;
- Sections 38 to 40, providing for the stopping of funds to municipalities by the National Treasury;
- Section 41, providing for the monitoring of prices and payments for bulk resources by the National Treasury; and
- Section 42, dealing with price increases of bulk resources for provision of municipal services.

1 July 2005

- Section 5(3), (4) and (8), providing among other things for the provincial treasuries to monitor compliance with the Act by municipalities and to submit information to the National Treasury on a quarterly basis;
- Section 28, providing for municipal adjustments budgets;
- Section 34(3), dealing with co-operative government when a provincial government performs its monitoring function in terms of 155(6) of the Constitution;
- Section 73, concerning reports on failure to adopt or implement budget-related and other policies;
- Section 91, providing that the financial year of a municipal entity must be the same as that of municipalities;
- Section 123, dealing with disclosure on intergovernmental and other allocations by a municipality in its annual financial statements;

- Sections 126 to 134, dealing with the submission of annual financial statements, annual reports and related matters;
- Chapter 13, dealing with the resolution of financial problems by a municipality;
- Section 179, providing for the repeal and amendment of certain legislation.

1 July 2006

- Sections 83 and 107, dealing with the competency levels of professional financial officials; and
- Section 119, dealing with the competency levels of officials involved in municipal supply chain management.

1 July 2008

- Section 45(4)(a), dealing with the short-term debt of municipalities.

Exemption and delays in implementation

Even those sections of the Act that are in operation will not necessarily apply to every municipality. The Minister of Finance may, by notice in the *Gazette*, delay the implementation of a provision of the Act or exempt any municipality or municipal entity from such provision on conditions determined in the notice.

The delays and exemptions take into account the capacity level of municipalities to implement the Act. In a regulation issued on 1 July 2004 in terms of section 177 of the Act, municipalities have been classified as having high, medium and low capacities. According to this classification, the Act will be implemented as follows:

All municipalities

All municipalities are exempted from certain provisions relating to their annual budgets for the 2004/05 financial year, including budget revisions. All municipal entities have been exempted from some provisions dealing with budgets, auditing and annual reports until 30 June 2005.

key points

- The MFMA will be phased in to allow municipalities and other stakeholders adequate time to fully implement the reforms.
- The MFMA will modernise and improve financial governance in municipalities.
- The Minister may delay the implementation of a provision of the Act for certain municipalities.

High capacity municipalities

Fifty municipalities, including all the metros, have been classified as high capacity municipalities. They are exempted from certain provisions relating to their budgets for the 2004/05 financial year. The same applies to provisions applicable to their service delivery and budget implementation plans for the 2004/05 financial year.

A further set of provisions relating to, among other things, reporting on serious financial problems, duties of accounting officers, establishing budget and treasury offices, internal audit units and committees, are delayed until 30 June 2005. Finally, the provision dealing with reporting and auditing financial statements for compliance with generally recognised accounting practice is delayed until 30 June 2006.

Medium capacity municipalities

There are 117 medium capacity municipalities. In general, they have been given an addition year to comply with the exempted provisions of the Act.

Low capacity municipalities

The remaining municipalities, classified as having low capacity, are given a further year's grace in implementing all the provisions of the Act. The final date of implementation is thus 30 June 2008.

Request for exemption

Despite these general rules applying, individual municipalities may further request reclassification, or may make specific requests for delays and exemptions in terms of section 177.

Such requests must be fully motivated, providing proposed implementation dates, must be duly signed by the mayor and municipal manager and must be submitted to the Chief Director of Local Government in the National Treasury.

National Treasury

The National Treasury and the provincial treasuries have committed themselves to support municipalities by providing appropriate advice and assistance.

The National Treasury has promised regular workshops and training sessions, an updated website and the issuing of guides and support materials.

Details of the implementation of the MFMA can be found at www.treasury.gov.za/mfma.

Conclusion

The implementation of the MFMA will require skill and effort from all parties concerned.

In the end the primary responsibility rests with the municipalities to ensure that they not only comply with the letter but also the spirit of the law.

The objective is clear: financially well-managed municipalities are essential for local government to give effect to its developmental mandate.

Nico Steytler
Reuben Baatjies
Community Law Centre, UWC