



Introduction

“Key financial reforms for the local sphere over the next three years will be driven by the implementation of the Municipal Finance Management Act, which will take effect on 1 July 2004. A programme for the phased implementation of the Act will be issued shortly. It will take due regard of the uneven capacity of municipalities to implement financial reform.”
(Minister of Finance, Trevor A Manuel, 2004 Budget speech)

The Municipal Financial Management Act (MFMA) aims to modernise budget and financial management practices by placing local government finances on a sustainable footing. It also aims to put in place a sound financial governance framework by clarifying and separating the roles and responsibilities of the mayor, executive and non-executive councillors and officials. It consequently serves to maximise the capacity of municipalities to deliver services to all its residents, customers, users and investors.

The MFMA will be phased in to allow municipalities and other stakeholders adequate time to fully implement the reforms. Consultation workshops will be held in May 2004 to allow stakeholders to comment on the proposed phase-in provisions. Whilst some clauses will be delayed or exempted (in terms of section 177 & 180) key sections will take effect on 1 July 2004. Nominal compliance with these sections will not be very difficult – the challenge will be to implement the qualitative improvements envisaged by such sections, which will take longer.

Implementation of the MFMA is a collective learning experience for all municipalities and you are encouraged to build internal capacity to deliver these reforms rather than employ external consultants. Municipalities are also reminded to ensure training courses attended have been approved by the National Treasury. National Treasury in association with SALGA and the SETA, are in the process of finalising unit standards and setting minimum norms and standards for training.

The cooperation of all municipalities is requested to ensure the “spirit” of the financial reforms are observed immediately and not to wait until the effective date(s). Municipalities will be supported and guided during the phases of implementation and can be assured of National and provincial assistance.

The MFMA was adopted by Parliament on 26 November 2003, and assented to by the President on 9 February 2004, as published in Government Gazette 26019. The MFMA applies to all municipalities and municipal entities. It also applies to national and provincial governments, departments and public entities, to the extent that they have financial dealings with municipalities.

Modernising Financial Governance

1. The underlying principles in the MFMA, which form the basis of the key reforms envisaged in the Act, are consistent with other legislation in local government. It is anticipated that these principles and the specific reforms that flow from them will encourage a **stronger, well managed and more accountable local government**

sphere, one that is better placed to meet the emerging needs and expectations of the different communities.

The *MFMA* addresses a number of financial and fiscal reforms. The most significant reforms being the new budget process and its link to the Integrated Development Plan (IDP), new accounting standards and formats, the establishment of audit committees and other internal controls, improvements to procurement and supply chain management, performance measurement reporting, staff competency levels and new mechanisms to resolve financial problems and misconduct.

The *MFMA* therefore empowers various stakeholders within the municipality around a framework of good governance. *Municipalities will reap great rewards if they implement the MFMA in spirit, rather than merely for nominal compliance.*

Complementary legislation

The MFMA must be read with other complementary national legislation, in order to correctly interpret and fully understand the underlying policy. This includes:

- a) Sections 230A and 139 of the Constitution as amended in 2002 and 2003, which provides for borrowing and intervention respectively,
- b) Municipal Systems Act no 32 of 2000 (as amended by Act 44 of 2003) that aligns provisions relating to the establishment of entities and external providers and deals with the process to prepare Integrated Development Plans (IDPs) and establish a performance-based measurement system, and
- c) The annual Division of Revenue Act (DoRA) that impacts on municipal allocations and monthly reporting

Transitional arrangements

Provisions relating to primary bank accounts, annual financial statements and annual reports contained in the Division of Revenue Act 2004 will suspend certain provisions contained in the MFMA until 1 April 2005. Most of these transitional provisions are in line with the MFMA, and seek to avoid duplication (e.g. providing details of a primary bank account).

The MFMA repeals the provisions in the Local Government Transition Act 209 of 1993 and other legislation. It takes precedence over various provincial ordinances, especially those in conflict with the MFMA.

Support from National Treasury

The municipal finance management reform framework has been guided by the *Local Government White Paper* released in 1998 and the development of financial reforms contained the Municipal Finance Management Act. In 2000 a programme commenced to implement and refine principles embodied in the Act in selected pilot municipalities. The Financial Management Grant (FMG) was created to assist these municipalities initially and will be extend to all remaining municipalities later this year.

Furthermore, two other significant initiatives to build capacity in municipalities have been undertaken. These relate to the placement of 30 international advisors at selected municipalities, to assist in sector wide financial reforms and the recruitment of over 100 finance management interns to assist with the implementation of the MFMA. These graduates in economics, finance and related fields are being offered hands on training in municipalities.

Soon National Treasury will be providing municipalities with supporting material to assist with the implementation of the financial reforms in a number of areas. This includes a pocket version of the MFMA with annotations, a comprehensive guide to the implementation of the MFMA, a table of delegations, categories of municipal capacity, section-by-section phase-in dates, draft regulations, specimen financial statements and guidelines on the Municipal Financial Management Internship Programme.

Initial support for the implementation of the Act will be provided through awareness-raising workshops in all provinces to be conducted during May and June (see dates and locations below). Other training needs will be addressed through short-term courses on key topics of financial reform, which will be repeated where necessary and updated to reflect emerging and good practices. Further accredited training will be conducted during the next few years and will be in line with the new unit standards based qualification currently being finalised.

We recognise the extent of the financial reforms, however municipalities should take comfort in the knowledge that continuous support and guidance will be available. These support measures include :

Provincial Workshops

Two-day workshops to assist municipalities to understand and interpret the MFMA and prepare for implementation are planned for the following locations. Invitations and registration details have already been distributed; please ensure these dates are marked in the diaries of key officials and councillors. It is mandatory for senior officials to attend the full duration of the workshops.

3 and 4 May	Tshwane	Gauteng
6 and 7 May	Potchefstroom	North West
10 and 11 May	eThekwin	Kwa Zulu Natal
13 and 14 May	Mangaung	Free State
17 and 18 May	Cape Town	Western Cape
20 and 21 May	Buffalo City	Eastern Cape
24 and 25 May	Polokwane	Limpopo
27 and 28 May	Mbombela	Mpumalanga
1 and 2 June	Sol Plaatje	Northern Cape

Training and Unit Standards

National Treasury in association with relevant stakeholders is finalising the development of unit standards for the training of finance personnel in municipalities. The training is aimed at building financial management skills and capacity in a sustainable manner, well structured and focused towards the key challenges in the MFMA. In particular, it is targeted at the local government sphere for the implementation of the Municipal Finance Management Act.

The unit standards qualification will ensure that training providers will offer the quality and standard training required in terms of the National Treasury approval process and comply with the South African Qualifications Authority (SAQA) standards. Further guidance will be provided at the provincial workshops.

The Minister of Finance in his speech in the National Assembly on 11 September 2003, cautioned those institutions and organisations wanting to exploit the opportunity created by the MFMA.

The National Treasury is finalising plans and arrangements to ensure that the requisite quality and support material will be issued to all stakeholders over the next months in ensuring a smooth rollout of the Act. It is imperative that a common message and proper understanding of the implementation is undertaken and understood by all municipalities.

There will be ample opportunity for the private sector to engage in this matter, once the initial standards have been set and a quality assurance process followed. In the interest of building a sustainable and quality capacity building programme we recommend that you refrain from attending workshops on the MFMA until further guidelines have been issued.

We look forward to seeing you at the provincial workshops and working closely with all municipalities in supporting the successful implementation of the MFMA. We also wish to express our deep gratitude to all stakeholders for their contributions during the past 4 years in developing this legislation.

Contact

Further information and copies of the MFMA is available from:



National Treasury

Telephone

Private Bag X115, Pretoria 0001

Email

(012) 315 5850

Website

mfma@treasury.gov.za

www.treasury.gov.za (click on MFMA icon)

T. Pillay

Chief Director: Local Government
20 April 2004