

**The readiness of municipalities in
implementing the Municipal Finance
Management Act, no. 56 of 2003 (MFMA):
capacity challenges of municipalities in the
North West province in implementing MFMA**

by

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*A minithesis submitted in partial fulfillment of the requirements for the degree
of Masters in Public Administration, in the School of Government,*

University of the Western Cape

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Submitted: 02 March 2009

10 KEY WORDS

1. *Capacity Building.*
2. *Cooperative Government.*
3. *Fiscal Decentralisation.*
4. *Intergovernmental Relations.*
5. *Intergovernmental Fiscal Relations.*
6. *Municipal Council.*
7. *Municipal Finance.*
8. *Municipal Finance Management Act.*
9. *Municipal Training.*
10. *Public Finance Management Act.*



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ABSTRACT

The readiness of municipalities in implementing the Municipal Finance Management Act, no. 56 of 2003 (MFMA)

Bridgette Akanyang Diutlwileng

*Master of Public Administration (MPA) Thesis for the School of Government,
University of the Western Cape*

This research paper explores the concept and practice of intergovernmental fiscal relations in South Africa, with particular reference to capacity building towards assisting municipalities and improving their readiness to implement the Municipal Finance Management Act (MFMA) ¹. The main purpose of the research project is to investigate the readiness of South African Local Government structures in implementing the Municipal Finance Management Act (MFMA), to evaluate successes and challenges so far, as well as to sketch a way forward with regard to the further capacitation of municipalities in order to assist them to implement the MFMA successfully in the medium to long term.

The study employs both qualitative and quantitative methods of data collection, including secondary sources, which comprise government (departmental) reports and policy documents, National Treasury MFMA circulars, as well as library books and journal articles. The primary sources used are survey questionnaires from municipal managers and

¹ Act 56 of 2003.

interviews with officials of the National Treasury, North West Provincial Treasury, and the Department of Local Government and Housing.

The envisaged benefits of the study are to provide a better understanding and awareness of the intergovernmental fiscal relations system in South Africa; explore ways of increasing capacity at all levels of local government, thereby coming up with proposals of ensuring broad and effective participatory decision-making and implementation at local government level; provide input into the expenditure responsibilities and revenue authority of Provincial and Local Governments, as well as the design of various forms of national to sub-national transfers; raising awareness among decision-makers regarding the stakes involved as far as the subject is concerned; and finally recommending ways of ensuring that municipalities are sufficiently capacitated to implement financial policy, and thus enhance financial accountability at local government level.

The study concludes that government has done a lot to enable municipalities to implement the MFMA, but municipalities have indicated that they need continuous training and other interventions. There are several capacitation programmes, including training and workshops that municipalities have found useful in this regard.

Municipalities have indicated that the MFMA is a necessary piece of legislation, and even those that have indicated that they are not well-capacitated to implement it are of the opinion that government should continue with its implementation because of its importance, but also that there needs to be continuous interventions and re-training for them to be able to implement it successfully in the medium to long term.

02 March 2009

DECLARATION

I, Bridgette Akanyang Diutlwileng, declare that *The readiness of municipalities in implementing the Municipal Finance Management Act, no. 56 of 2003 (MFMA)* is my own work, which has been written solely for the purpose of being submitted for the degree of Master of Public Administration at the University of the Western Cape.

I further testify that it has not been submitted for any other degree or examination in any other University or institution of higher learning, and that all the sources I have used or quoted have been indicated and acknowledged by complete references.

Signed by (names in full)

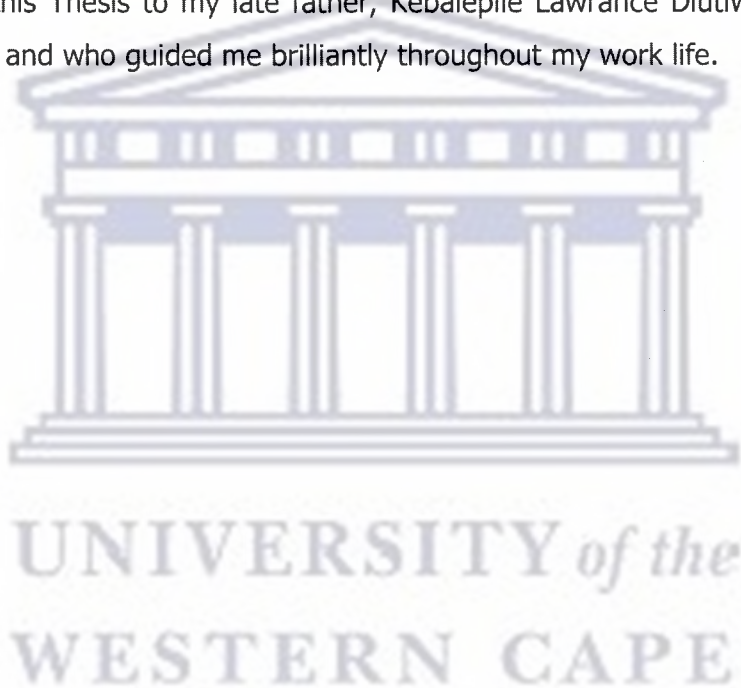
Signature

Date

DEDICATION

I dedicate this dissertation to my sons, Luvo, Thato and Chris-Mwehu Diutlwileng, who bring so much hope and love into my life every second of every day, and push me, through my love for them, to be the best that I can be.

I also dedicate this Thesis to my late father, Kebalepile Lawrance Diutlwileng, who was a pillar of support, and who guided me brilliantly throughout my work life.



ACKNOWLEDGEMENTS

In fulfilling my obligation towards the completion of this dissertation, I worked with a number of people who have played a critical role in providing guidance and support towards the completion of this work. The following people and institutions have played especially important roles in this regard:

Professor John James Williams for his guidance as my supervisor throughout the work.

Professor Christo De Coning for his important insights throughout the work.

The North West Provincial Treasury, for readily availing information for the study.

Mr. Seymour Williams, Chief Director of the MFMA Implementation Unit in the North West Provincial Treasury, for always being available for interviews and providing important and much-needed information.

All District and Local municipalities who filled out the questionnaire, as well as provide detailed answers to the open ended questions. I appreciate your time and effort.

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CHAPTER 1. FISCAL DECENTRALISATION AND THE NEED FOR THE MFMA

1.1 Introduction

South Africa is a new democracy, and as such is still at a critical stage of developing systems and policies that are suitable for a newly democratising state such as our own. All aspects of governance in the country have changed completely since the abolishment of apartheid and the creation of a democratic government in 1994. The new system is different from the apartheid governance system in one crucial respect: it is not as centralised as the apartheid system. However, although decentralisation has brought many benefits, it has also necessitated the need for appropriate policies to coordinate and manage the country effectively. The government has therefore had to implement several policies in order to ensure the smooth transition from apartheid structures and policies, to the new and more decentralised Intergovernmental Fiscal Relations structures. The Municipal Finance Management Act is one of the laws that have been passed in order to guide government structures (in this case Local Government) in governance and financial matters.

In addressing this subject, this research project examines intergovernmental fiscal relations broadly, and thereafter narrows it down to the specifics of municipal financial capacity building, and the implementation challenges relating to the Municipal Finance Management Act. In this regard, the North West Province has been selected as a case study.

Intergovernmental fiscal relations entails the decentralisation² of government in the form of transfer of fiscal power from central to sub-national (provincial and local) governments.

² The reorganisation of government into three smaller, more autonomous and independent spheres of government.

The South African Constitution³ reinforces the need for effective channels of intergovernmental communication and cooperation. Chapter 3 of the Constitution, in particular, sets the mode for intergovernmental relations and cooperative government in the country.

The constitutional changes regarding the powers and responsibilities assigned to lower levels of government have resulted in an increased need for all levels of government to be accountable for the use and monitoring of funds. The benefits of an improved intergovernmental fiscal relations system include the improved accountability of public officials to their counterparts, as well as economic efficiency gain. Intergovernmental fiscal relations therefore affect the degree to which the three spheres of government can perform their constitutional responsibilities effectively. In most economies, intergovernmental finances also influence macroeconomic stability, the provision of the social net, and the pace and depth of privatisation.

Taking note of this, this paper seeks to evaluate the readiness of South African Municipalities to implement the MFMA, which is one of the most important pieces of legislation governing and regulating the use of financial resources and other matters of governance within the local sphere of government.

1.2 Problem statement

The research problem emanated from the continuous decentralisation of the South African Intergovernmental System, which has resulted in more independence and autonomy of sub-national governments, leading to complexities in managing and regulating government. This decentralisation has necessitated proper regulatory policies and systems such as the Public Finance Management Act (PFMA) and Municipal Finance Management Act (MFMA), which aim to facilitate proper financial management and governance by local government bodies.

³ The Constitution of the Republic of South Africa, act 108 of 1996.

1.3 Guiding assumptions and research questions

The South African government has introduced several measures to capacitate municipalities to implement the MFMA, but these are not enough. Continuous capacity building and training is needed in order to implement the Act successfully. The guiding assumptions of this paper are that municipalities are not yet well-capacitated to implement the MFMA even though the South African government has undertaken action to capacitate them in implementing the Act, particularly district and local municipalities.

The research questions are:

- *Are municipalities ready to implement the complex policy provisions that are required by the MFMA?*
- *Poor local municipalities, in particular, are prone to experiencing challenges in this regard. The North West province is largely rural and poor, is the province's municipalities ready (well-capacitated) to implement this piece of legislation?*

1.4 Research objectives and benefits

Objectives

The objectives of the research are to investigate the successes and challenges of municipalities in implementing the MFMA, as well as to gain insight into the ability of South African Municipalities to implement the Act. A case study is made of municipalities in the North West Province.

Benefits

The research project aims to provide a better understanding and awareness of the Intergovernmental Fiscal Relations system in South Africa; provide ways of ensuring that municipalities are sufficiently capacitated to implement financial policy, and thus enhance

financial accountability at local government level; and to provide input into the expenditure responsibilities and revenue authority of local governments.

The research project further aims to explore ways of increasing capacity at all levels of local government, thereby developing ways of ensuring broad and defective participatory decision-making and implementation at local government level. This will ideally assist in raising awareness among decision-makers regarding the stakes involved as far as the subject is concerned.

1.5 Research methodology

This study is based on the collection of both primary and secondary data. The primary data was gathered by both a questionnaire and interviews. In terms of the questionnaire, a survey questionnaire was developed and sent to the 25 municipalities (the total population of municipalities) in the North West Province. Only 12 municipalities responded (48% response rate) and the other questionnaires were left out due to time constraints. The responses received came from two district municipalities and ten local municipalities. The questionnaires focused on the classification of municipalities as low, medium and high capacity, and their different capacity needs⁴.

In addition to the questionnaires, interviews were conducted with officials from the North West Department of Local Government and Housing, National Treasury and the Provincial Treasury. In terms of the collection of secondary data, the Web-based National Treasury Circulars that have been developed to assist municipalities with the implementation of the MFMA were used. Forty of these training and information circulars were used during the study. Other sources of information included the Internet, library books and journals, as well as information provided by the North West Provincial Treasury on the state of compliance of municipalities.

⁴ See Appendix 1 (Questionnaire).

1.6 Significance of the study

South Africa is still a relatively new democracy, and therefore its systems are also still new and evolving. There is a need to better understand the new, continuously decentralising systems of government, as well as the implications of this decentralisation, which has necessitated the introduction of laws such as the MFMA. This study will also form part of the existing literature on municipal finance broadly, as well as make an academic contribution to the understanding of the need for the MFMA and its potential benefits. The paper can be used as a reference document by South African public finance specialists, as well as academics and public finance specialists from other countries when writing comparative studies. This will be particularly important because this is a fairly new piece of legislation, and therefore there is limited information on it.

1.7 Limitations of the study

Because this study has been limited to the North West Province, it does not provide a picture of how municipalities are doing in the whole country. However, it can still make a useful reference for similar provinces, such as Limpopo and Mpumalanga provinces, as well as for national studies.

In addition, not all municipalities responded to the questionnaire despite the fact that the questionnaire was faxed and re-faxed twice to them. These were subsequently left out due to time constraints.

1.8 Outline of the paper

Chapter 2 of the study introduces the concepts of Intergovernmental Fiscal Relations and the importance of fiscal decentralisation in detail. The constitutional provisions for intergovernmental fiscal relations are discussed in this chapter. This chapter also explores the significance of the local sphere of government in the South African context, as well as the important role that capacity building plays in local government. In this regard, the

paper notes Section 51 of the Constitution, which establishes local government as the sphere of government that consists of municipalities that must be established for the whole of the territory of the republic, and highlights the constitutional responsibilities of local government.

The section concludes by presenting an international case study, in the form of the Armenian local government system, which is taken as a benchmark to South African local government.

Chapter 3 details the underlying principles of the Municipal Finance Management Act (MFMA), and also offers a detailed discussion of the legislation and its provisions. For instance, the MFMA implementation plan for municipalities is required to contain a list of activities, with their target and actual performance dates and timeframes, with provision to indicate on-going progress with comments, and a responsible councilor/official for each activity. The implementation plan template provides municipalities with a starting point to manage the reforms contained in the MFMA and other legislation relating to financial management.

In terms of forbidden activities, Section 164 (1) (c) of the MFMA states "*no municipality or municipal entity may make loans to councilors and officials of the municipality, directors or officials of the entity, or members of the public*". Sections 46 and 108 of the MFMA make further provisions regarding long-term debt and borrowing.

The most important documents tabled for any municipality or municipal entity are its Integrated Development Plan (IDP), budget and Annual Report. While the IDP and budget are forward looking by setting out what the municipality intends to do and the funds it will raise and spend; the annual Report is backward looking, as it reports on actual performance at the end of the financial year, particularly on how the IDP and budget were implemented.

Sections 110 to 116 of the MFMA deal with issues of Supply Chain Management. Section 117 forbids the involvement of councilors in any tender or bid Committee. Instead, the responsibility both for expenditure and tendering rests with the Accounting Officer.

Regarding oversight, the Council has a duty to ensure that the Accounting Officer executes the Council's policy. The separation of roles between the Council and administration provided in the Act is intended to strengthen the oversight function of Councilors.

In terms of the budget process, The MFMA provides for the IDP review and budget processes to be one process in order to promote maximum efficiency in budgeting and service delivery. To facilitate this process, it is incumbent upon municipalities to identify and prioritise the competing needs of the communities within their jurisdictions. Six distinct steps to the preparation of a budget are identified. These are planning, strategising, preparing, tabling, approving, and finalising.

The Service Delivery and Budget Implementation Plan (SDBIP) gives effect to the IDP and budget of the municipality, and ensures that the two documents are fully aligned with each other, as required by the MFMA. The SDBIP sets in-year information such as quarterly service delivery and monthly budget targets, and links each service delivery output to the budget of the municipality, thus providing credible management information and a detailed plan for how the municipality will provide such services, as well as the inputs and financial resources to be used.

Chapter 4 explores the programmes that have been introduced by government in order to facilitate implementation of the MFMA. In this regard, the chapter looks at several capacitation programmes, including the Municipal Finance Management Internship Programme, and the Guide to Municipal Finance Management for Councilors. The Treasury has assisted in the recruitment of over 100 finance management interns, who are required to be graduates in finance, economics or accounting to assist with the implementation of the MFMA. The Treasury also provided municipalities with workshops, courses and supporting material to assist with the implementation of the financial reforms in several

areas. All training is aimed at building financial management skills and capacity in a sustainable, well-structured manner, and is focused towards the key challenges of the MFMA.

Chapter 6 assesses the challenges facing municipalities in the North West Province in implementing the MFMA. In this regard, all municipalities were surveyed in relation to their financial management skills and capacity, and were subsequently classified, for the purposes of implementing the MFMA, as high, medium and low capacity municipalities. This classification impacted on issues such as starting dates, and informed the phase-in plan directly. Municipalities had to prioritise several issues in the short term, including establishing a budget and treasury office and appointing a Chief Financial Officer, conducting an audit of all corporate and municipal entities in order to harmonise with Chapter 8 (a) of the Municipal Systems Act, establish an internal audit unit and Audit Committee, and address audit queries raised in audit reports.

Chapter 7 presents the findings and recommendations of the study, as well as the conclusion. The chapter aims to provide concrete ways of moving towards effective implementation of the MFMA.

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CHAPTER 2. FISCAL DECENTRALISATION AND LOCAL GOVERNMENT TRANSITION IN SOUTH AFRICA

This chapter introduces the broad concept of intergovernmental fiscal relations, and goes on to provide a brief historical overview of intergovernmental fiscal relations in South Africa since 1994. The chapter further explores the significance of local government, its unique qualities (such as closeness to communities), and the unique role it can play in the national transition process. The chapter further explores the vision of Local Government in South Africa, as well as the government's capacity building initiatives towards attaining this vision.⁵

2.1 Constitutional framework for intergovernmental fiscal relations

The Constitutional recognition of the three spheres of government introduced greater complexity into the arrangements required for executive/administrative, legislative and financial intergovernmental relations. The Constitution recognises the importance of minimising inefficiencies, as these are bound to cause undue complexities between the three spheres of government. The Constitution contains a number of provisions that could impact on and improve Intergovernmental Relations, especially between provincial and local governments. These include the right of local government to conduct its own activities within the framework of the Constitution. The Constitution further provides for National Government to adopt legislation to establish, provide and facilitate Intergovernmental Fiscal Relations. Chapter 7 of the Constitution, in particular, is devoted to Local Government, its powers and its relationship with other spheres of government. National and provincial governments have a duty to support and strengthen the capacity of municipalities to exercise their powers and to perform their functions. In addition, provincial government is

⁵ The literature presented in this research paper has mostly been gathered from South African sources.

required to provide for monitoring and support of local governments and promote their capacity to manage their own affairs (s155 (2)).

Section 51 of the Constitution establishes local government as the sphere of government that consists of municipalities that are established for the whole of the territory of the republic⁶. The Constitution mandates local government to⁷ provide democratic and accountable government for local communities, ensure the provision of services to communities in a sustainable manner, promote social and economic development, promote a safe and healthy environment, encourage the involvement of communities and community organisations in the matters of local government, as well as promote the Bill of Rights and uphold the principles enshrined in the Constitution.

2.2 Fiscal decentralisation

Since 1994, the South African fiscal system has decentralised tremendously, with budgetary decisions being made at all three levels of government simultaneously. Decentralisation is the key concept in intergovernmental fiscal relations, as it is concerned with the fiscal implications of a decentralised system of multilevel government. The most important justifications for sub-national governments' involvement in budgetary and allocative issues are that they have the potential to improve allocative efficiency⁸. A proper fiscal decentralisation⁹ system requires economic and political efficiency, macroeconomic stability and a proper redistribution of resources.

Fiscal decentralisation generally opens the door for potential allocative efficiency. However, the resultant gains from the system will depend much on how the system of intergovernmental fiscal relations is implemented in the country. In the South African

⁶ Constitution of the Republic of South Africa, Act 108 of 1996.

⁷ Intergovernmental Relations: Local Government; John J. Williams.

⁸ Allocative Efficiency is concerned with whether, subject to budget constraints, the public sector produces the level and mix of public services (public expenditures) that citizens demand and which correspond with their preferences.

⁹ Fiscal Decentralisation entails the relative roles of the three spheres of government in raising revenues and implementing expenditure decisions.

context, the impetus for the creation of a decentralised fiscal configuration tends to be primarily political, given the country's apartheid legacy, where everything was highly regulated and centralised. The need to redress past imbalances has been a powerful force shaping the emerging system of intergovernmental fiscal relations.

The South African intergovernmental fiscal relations system is founded in the Constitution. In this regard, Sections 229 and 230 of the Constitution grant municipalities significant taxation and borrowing powers, subject to national legislation and regulations such as the Local Government White Paper and the Municipal Finance Management Act. Amongst others, the White Paper listed the principles of sustainability, effective and efficient resource use, as well as accountability, transparency and good governance for the new Local Government finance system.

2.3 Local government transformation in South Africa

South African local government is largely diverse, ranging from small rural communities to large developed metropolitan urban centers, with very different requirements and significant capacity discrepancies¹⁰. Local municipalities, in particular, have serious capacity constraints, including human resource, financial, technological and information resources capacity. For example, all the municipalities that responded to the questionnaire (which will be discussed in detailed in chapter 5) indicated that even though they have received training on different aspects of the MFMA and other areas of municipal functioning, they still require continuous training and assistance, mostly in the form of refresher workshops, guidance in aligning their Performance Management Systems and Municipal Finance Implementation Plans, as well as cash management. This will impact significantly on municipalities' service delivery mandates, as well as their ability to comply with regulations that require tedious planning. The ability of local government to carry out its responsibilities depends on the existence and efficient use of financial resources, which requires fiscal capacity building as an important part of an integrated capacity building strategy.

¹⁰ These have been named category A (Metros), category B (District), and category C (local) municipalities.

The new system of local government aims to advance South Africa's national democratic transition, but transforming local government is not easy. Many countries have found it far more difficult to fundamentally change their local government system than their provincial and national systems because of its complexity and the fact that it entails fine-tuning issues around Local Government funding, resources and capacities, as well as accepting that municipalities will not all be able to fully implement new systems at the same time or in the same way. The challenge in this regard is to find ways of addressing these in a way that advances the national democratic transition. To start off, there must be a realisation that local government is not just an important site for the delivery of services, but is also crucial for the economic and social development of people.

Since 1994, South African local government has undergone major transformation. This fundamental transformation resulted in a shift from over 1 200 racially based local authorities, four provincial administrations and ten Bantustans into 284 democratically elected municipalities, nine provinces and a central government. The transformation process demanded a democratic and developmental Local Government that puts responsibility and accountability on officials, Councilors and frontline workers, and encourages citizen participation. Capacity building was identified as one of the important tools available to local government in bridging the gaps in what is expected of it and what it can actually deliver.

2.4 Capacity building for local government transformation

The transformation of local government can be traced back from the framework set out in the Local Government Transition Act, No. 209 of 1993, which sketched a three-phase long-term plan for transformation. In this regard, the Department of Provincial and Local Government (DPLG) developed a capacity building framework, the main features of which are the identification of intervention areas, the division of these interventions into three phases, and an outline of timeframes for each phase.

Local Government transformation was implemented in three broad phases, namely; the Pre-interim phase (characterised by Local Government Negotiations Forums, 1993 – 1995); the Interim phase (characterised by Transitional Local Councils, 1996 – 2000); and the final phase, (implementation, 2001 onwards. Each phase is identifiable by the kind of interventions required by a municipality.

Municipal capacity building is a key feature in the implementation of the final phase of local government transformation and is itself (as prescribed in the national local government framework) to be implemented in these three phases. The first phase, which was the establishment phase, consisted of the amalgamation process, defining the powers and functions of municipalities, systems development, personnel development and the development of organisational structures. The second phase, which was the consolidation phase, focused on issues such as financial management, service delivery issues (including free basic service delivery and extension of services), local economic development, performance management, sound governance, and Integrated Development Plans. The third and last phase, the sustainability phase, prioritises issues such as financial viability, creating a stable economic base, development of adequate infrastructure, provision of dependable services, as well as vibrant local democracies.

The Local Government transformation process also resulted in the establishment of a progressive policy, an institutional framework, and a regulatory environment conducive to developmental local government. This is directly opposite to the apartheid government's local government capacity building structures, which were racially determined, did not support democratic development, and were unresponsive to the needs of local municipalities. The new democratic government has put in place a series of legislation to give meaning to the new local government capacity building system.

Since 1995, during the pre-interim phase, significant progress has been made in transforming the system of local government. However, there is a growing realisation that the existing lack of capacities in local government still persists. These discredit the transformation trajectory and influence the lack of ability to deliver and function

developmentally. This situation compelled government and key role players, including SALGA, to intensify capacity building processes at local government level. While the issue of building municipal capacity is not a new one, programmatic responses and assistance have generally been fragmented, and have rarely had an impact on building the in-house capacity of municipalities.

The challenge facing the South African government is to create a programme of support that targets the weakest structures across the whole local government sector. It is critically important that donor and grant programmes be aligned with the increasing emphasis on supporting local government. The new system of local government was augmented by the Municipal Systems Act of 2000, which emphasised on making municipalities more financially viable and better able to perform their powers and functions.

2.5 The vision for developmental local government

The national goal for local government is to create local government structures that are accessible, efficient, representative, accountable and sustainable. The White Paper on Local Government, 1998 entrenches developmental local government, which is committed to working with citizens and groups within the community to find sustainable ways of meeting their social, economic and physical needs and improve the quality of their lives. The Constitution commits government to take reasonable measures, within its available resources, to ensure that local government is well-capacitated to ensure that all South Africans have access to adequate housing, health care, education, water and social security. The White Paper on Local Government recognised weaknesses in municipalities, including unrealistic budgeting, poor credit control, lack of budgetary and financial discipline, as well as a lack of understandable and accessible information on the budget process.

The Constitution also provides for national and provincial government to play a vital role in the capacity building and support of local government. In this regard, Section 154 (1) of the Constitution states that both national and provincial government must support and strengthen the capacity of municipalities to manage their own affairs, exercise their powers

and perform their functions. This entails that national government must establish an overall framework for municipal capacity building and support.¹¹ In turn, municipalities are required to work with provincial and national government in their respective areas of jurisdiction to enhance the effectiveness of national and provincial programmes.

In terms of the Constitution, a fully capacitated municipality is one that is able to govern its affairs on its own initiative by demonstrating financial and administrative capacity to provide democratic and accountable government for local communities, ensure the provision of services to communities in a sustainable manner, promote social and economic development, promote a healthy and safe environment, as well as to encourage the involvement of communities and community organisations in matters of local government¹².

The White Paper on Local Government, 1998 describes developmental local government within related characteristics, such as maximising social development and economic growth, particularly meeting the basic needs of the poor, and facilitating the growth of the local economy; integrating and coordinating, including providing a vision and leadership to ensure that all efforts by role players are targeted for common goals; democratising development, including promoting the involvement of citizens; as well as leading and learning, including creating conditions for local solutions to development.

Developmental local government requires that municipalities be administratively and financially capacitated to fulfil their roles. Therefore, capacity building becomes a core and fundamental process that must be continued to ensure the creation of fully capacitated municipalities. The Local Government White Paper, 1998 provided a guide in terms of municipal finance, including matters of borrowing and investment powers of municipalities, credit enhancement, concessional loan finance, budgeting, accounting, financial reporting and management.

¹¹ See Select Reference List

¹² Section 152 (1) of the Constitution.

The white paper recognised municipal budgets as critical tools for refocusing the resources and capacity of the municipality behind developmental goals, and provided for budgets to be developed in relation to the policies and programmes put forward in Municipal Integrated Development Plans. The White Paper also emphasised community participation in both the budget and the Integrated Development Plans.

2.6 Municipal capacity building challenges

The Constitution provides for local government to be responsible for a number of services that were previously managed by national government. This has left municipalities with many needs for new skills to meet new performance demands. Yet many municipalities, particularly local municipalities do not have the managerial, administrative, financial and institutional capacity to meet the rising expectations of local communities on them.

The ability of local government to carry out its responsibilities depends on the existence and efficient use of financial resources, which requires fiscal capacity building as an important part of an integrated capacity building strategy. Overall capacity building means the integrated development of appropriate system or framework conditions, organisational aspects and individual capacity requirements to support the performance of local governments' responsibilities and provision for sustainability. In order to prepare for the end of transitional local government and the creation of a new democratic and non-racial local government system, municipalities and communities have had to build up their capacity in order to keep up with the requirements of the new local government fiscal system.

It is therefore important to have a complex and systematic approach to institutional reforms. Physical, human and financial resources must provide reforms, which are also brought about by political, economic, social and psychological conditions. Capacity building is crucial in this regard, and should be the main component of the reforms. In the absence of effective capacity building, social and economic reforms are at risk of failing. Transition

countries, especially New Independent States (NIS), face major implementation challenges during their initial transformation periods, mainly due to their lack of capacity.

It is crucial that municipal capacity be interpreted consistently, in line with the Constitution, and not limited to human resource capacity. The Constitution provides that municipalities must strive, within their financial and administrative capacity, to realise the democratic and developmental local government spelt out in Section 152 (1). Part of capacity building is to assist municipalities to use their available capacity well, and thereby achieve high performance relative to capacity. In addition, municipalities that cannot invest in their own capacity should be supported in that regard.

The capacity implication of local government transformation requires equal co-operation between the spheres of government. The new system of local government in South Africa is totally different from apartheid local government, and this in itself presented daunting challenges to the relative capacity of municipalities. In addition to this, new local government legislation and the division of powers and functions broadened the capacity challenge of municipalities to develop their own strategies in meeting service delivery needs. The capacity building challenges that posed immediate threat to developmental local government and the transformation process from the onset include:

Incomplete establishment and stabilisation of municipalities

The amalgamation process was difficult for municipalities and it presented challenges, including a major challenge regarding unconsolidated structures. In addition, some municipalities operate without basic office infrastructure and still lack simple operating systems. In certain instances, challenges exist in relation to Performance Management Systems, Integrated Development Plans, budgets, and the implementation of free basic services. This particular study explores this concept by looking into the extent of need for training in different aspects of municipal finance and planning by municipalities.

Weaknesses in operating capacity

The Municipal Structures Act, No. 117 of 1998, Municipal Systems Act, No. 32 of 2000 and various associated legislation, policies and guidelines were introduced to guide municipalities in establishing systems, procedures and structures. However, while the introduction of the systems and mechanism greatly enhanced decision-making, planning, resource allocation, service delivery and day-to-day administration in terms of providing an enabling policy and legislative environment; some municipalities still do not have adequate in-house technical abilities to develop systems and support internal processes. This is partly accounted for by staff turnover, as municipal personnel move, especially from small municipalities to the private sector, larger municipalities, and provincial and national government departments in search of more developmental opportunities. This mostly affects critical areas such as finance and technical/engineering.

Lack of motivation to build own capacity

The local government transformation process aimed to provide municipalities with greater capacity to tackle development more effectively. However, instead, in some cases, this resulted in a loss of, or weakening of capacity. In such cases, national and provincial government should play a supportive and strengthening role where municipalities cannot invest in their own capacity development. National government has structured intergovernmental grants to provide municipalities with capacity support and incentives to grow own capacity, and to address their capacity challenges in the long-run.

2.7 Capacity building responses

There are currently various capacity building initiatives by a range of role players, including sector departments. Programmatic response and assistance has generally been fragmented and has rarely had an impact on building in-house capacity. However, key role players such as the Department of Provincial and Local Government, the National Treasury, SALGA, provincial departments and the LGSETA have devoted significant resources into municipal

capacity building. For example, the Department of Provincial and Local Government has developed implementation guidelines for Integrated Development Planning (IDP) and Performance Management. The department and provinces, through the Local Government Support Grant, has also provided direct support to municipalities in the form of municipal support programmes. In addition, Planning and Implementation Management Support Centres have been established at district level to provide technical and strategic advisory services to both district and local municipalities on matters relating to planning, Performance Management Systems, as well as the implementation and review of IDPs, which was supported through the Municipal Systems Improvement Grant.

SALGA has played a key role in developing and coordinating programmes aimed at Councillor development, in particular through the Core Councillor Training Programme (CCTP). SALGA carries the overall responsibility for councillor training nationally, and has focused on several training priorities, including Integrated Development Planning (IDP) and budgeting; financial management; Local Economic Development (LED); strategic planning; negotiation and conflict resolution skills; as well as options for service delivery restructuring and partnerships. In addition, there are various sectoral training and capacity building initiatives, e.g. the National Treasury's budget and finance reforms in municipalities through the Local Government Financial Management Grant, which focused on placing financial advisors within municipalities to address issues of financial viability.

There are many initiatives aimed at building municipal capacity, with a major focus on training, as an integral part of institutional development. In addition, the training offered throughout the country's municipalities focuses on enhancing leadership competencies of local government's political and administrative office bearers. Much emphasis is also put on skills programmes in order to ensure sustainability. There is also focus on interventions such as technical assistance, mentoring, learnerships and placements.

There is an urgent need for greater and more effective coordination and cooperation within a commonly accepted framework of all the local government capacity building and training role players. The Department of Provincial and Local Government and the National

Treasury have assumed a leadership role in addressing local government capacity challenges. The Department of Provincial and Local Government has implemented the National Capacity Building Framework to enable its partners and stakeholders to collaboratively build municipal capacity. The framework provides a set of overarching strategic goals to ensure common focus. The strategy asserts that capacity building interventions must be targeted and be based on a proper capacity and skills development needs audit. This would ensure that municipalities are able to assess, identify and communicate their own specific capacity building needs.

2.8 Legislation and structures for local government capacity building in South Africa

The South African government has developed several pieces of legislation that aim to transform local government into a true service delivery model to meet the development needs of communities and ensure stability, predictability and efficiency. The legal and financial framework necessary to consolidate the system of local government for accelerated service delivery must be viewed mainly through the lenses of the following pieces of legislation, amongst others:

Municipal Systems Act, No. 32 of 2000

The Municipal Systems Act has built a momentum for municipal reform and created incentives for improved performance that would eventually increase confidence in the possibilities of positive change. The Municipal Finance Management Act and the Municipal Systems Act therefore, strengthen institutional capabilities by fostering transparent decision-making and citizen participation in the political and municipal processes. These also call for the creation of strong local partnerships that are critical to the sustained improvement of municipal management. This could be beneficial in strengthening initiatives such as Local Economic Development (LED).

The Municipal Systems Act aims to set out internal systems that enable municipalities to move progressively towards the social and economic upliftment of local communities. The Act further provides for residents to contribute to the municipality's decision-making processes, and the IDP is positioned in the Act as a tool that must set the vision, needs, priorities, goals and strategies of a municipal council to develop the municipality. It also provides for the community of a municipality to have a say in both the content of the IDP and the process by which it is drafted. Moreover, the Municipal Systems Act sets out the principles and values of the administration, as well as a Code of Conduct in the local government sphere.

Municipal Property Rates Act, No. 6 of 2004.

The Property Rates Act regulates the levying of property rates by all municipalities and also impacts on properties that previously fell outside municipal boundaries. Through the Municipal Systems Act, the Property Rates Act allows not only community participation on rates policy, but also community participation in determining IDPs, budgets and Performance Management Systems.

The Property Rates Act recognises that having revenue is not enough. Rather, its how revenue is managed and spent that is more important. The more productive and efficient municipalities are in managing their revenue; the more their case for increased revenue is strengthened. The need for a certain level of uniformity in municipal handling of the rates system is necessary. A national framework within which municipalities shape their own rates policies is therefore what the Property Rates Act provides.

Skills Development Act, No. 97 of 1998

Among the laws that have been passed to guide the direction of capacity building in the country as a whole, including in local government is the skills development Act, No. 97 of 1998. The Skills Development Act provides for a Sector Training Education and Training Authority (SETA) to be established in every sector to develop the skills of the South African

workforce. The key role of a SETA is to encourage investment in the education and training of workers, and to encourage workers to participate in training programmes¹³.

The steering committee that was appointed to establish the local government SETA was made up of the South African Qualifications Authority (SAQA), the Department of Labour, organised labour in the local government sector, the Department of Constitutional Development, SALGA, Local Government Education and Training Board (LGETB), and the Danish Embassy (DANIDA) as a donor¹⁴. The LGSETA is made up of representatives of organised labour, including the South African Municipal Workers Union (SAMWU) and the Independent Municipal and Allied Trade Union (IMATU), organised employers (SALGA), relevant government departments, and (with the permission of the Minister of Labour) any interested professional body or bargaining council of the sector.

The LGSETA has established provincial structures that perform any tasks delegated to them by the national SETA in terms of its Constitution. These provincial structures assist municipalities in assessing their training needs and also support municipalities to access the necessary training to address their identified needs. They also consist of an equal number of employee and employer representatives, as well as any other additional members that the SETA determines. The functions of the LGSETA, as outlined in the Skills Development Act include, amongst others, preparing and implementing the Local Government Skills Plan by establishing learnerships; approving workplace skills plans; allocating grants to employers, education and training providers and workers; and monitoring local government education and training in the sector.

The LGSETA should also promote learnerships by identifying work places for practical work experience; support the development of learning materials; improve the facilitation of learning; and assist in the registration and conclusion of learnership agreements. It should also apply to the South African Qualifications Authority (SAQA) for accreditation as an

¹³ SETAs are national structures that regulate and assure quality in training. A SETA is not a training provider. Rather, service providers who will be regulated by the SETA provide the training.

¹⁴ The LGSETA replaced the LGETB, and furthermore administers a skills levy paid by Local Government.

Education and Training Quality Authority (ETQA), collect Skills Development Levies and disbursing these to municipalities, report on income and expenditure, and the implementation of its sector skills plan to the Director-General of Labour, as well as appoint staff for the performance of its functions.

The Skills Development Act also introduced a learnership¹⁵ approach towards skills development requiring a combination of institutional learning and structured work experience (learning in the workplace)¹⁶. A learnership agreement must be entered into between the learner, the employer and the learning institution. The learnership approach is suitable to local government, as it allows for a substantial amount of learning in the workplace. But to make this happen, municipalities have to develop a cadre of skilled mentors or coaches. The learnership approach towards skills development is a great improvement over earlier apprenticeships. The process of registration and running of the new LGSETA has assisted local government and its councilors, officials and frontline workers to obtain more information about learnerships.

Skills programmes are another route that can be followed¹⁷. The Local Government Sector Education and Training Authority (LGSETA) should periodically establish a number of cooperative agreements with other SETAs, which may in future organise training relevant to local authorities¹⁸. Furthermore, while the LGSETA assists in the analysis of skills requirements, municipalities must play an important role in this as well. These structures and standards of local government training require mainstream sources of financing.

¹⁵ A learnership is not a qualification on its own, but it may lead to one depending on how many official learning standards and credits it contains.

¹⁶ A learnership is a combination of structured institutional learning and work experience, which may lead to a qualification, based on the National Qualifications Framework (NQF), the national framework against which qualifications and standards of capacity-building programmes will be measured in future.

¹⁷ A skills programme must be based on the National Qualifications Framework (NQF) but does not require workplace learning.

¹⁸ For example, water services training may not fall under the LGSETA but instead a Water SETA which might enter into a cooperative agreement with the LGSETA for training, since water provision is one of the functions of Local Government.

Skills Development Levies Act, No. 9 of 1999

The Skills Development Levies Act, No. 9 of 1999 provided for skills development to be largely financed through a skills levy, which has been set as no more than 1% of the wage bill for both the private and public sectors. The levy was phased in due to the poor financial situations of many organisations, including municipalities, and local government was given up to April 2002 before the levy became fully effective. The levy is collected by the LGSETA, which also manages and distributes the funds collected based on regulations issued by the Department of Labour.

Twenty percent of the collected local government levies are paid into the National Skills Fund, which is managed by the Department of Labour for different purposes, including the training of unemployed persons. Local government can apply for training funds from the National Skills Fund for training given to people outside its employed sector, for example, the unemployed, youth and people with disabilities. The remaining 80% of levies collected are used directly for local government training, where municipalities, based on their own skills plans, apply to the LGSETA for funding of their training priorities. A small portion of the funds are used to finance the administrative costs of the LGSETA. However, these funds are not sufficient to meet all the existing training needs of local government. In this regard, the LGSETA has to mobilise other funding for its activities, including contributions from donors, business and other spheres of government.

South African Qualifications Authority Act, No. 58 of 1995

The South African Qualifications Authority Act, No. 58 of 1995, which was developed by the Department of Education introduces a National Qualifications Framework (NQF) for education and training in South Africa, and also establishes the South African Qualifications Authority (SAQA) to oversee the implementation of the National Qualifications Framework.

The NQF approach towards learning is based on learning outcomes, which are measured by the ability of a learner, after training, to convert the learning into work performance. This method of learning therefore looks as much at the way things are currently being done as

at the final product. In addition, learning must not only be skills or task-orientated but must also develop a person's analytical, critical and rational abilities in a cultural, social and economic environment. Hence, the new standards and qualifications must include critical outcomes, which include problem-solving, creativity, working in teams, self development and management, decision-making, as well as workplace diversity.

The NQF promotes a system for the Recognition of Prior Learning (RPL). The RPL system of acknowledging past training and experience is an important tool to qualify officials and frontline workers in local government. SAQA and the NQF further promote life-long learning, which is achieved through the establishment of portable skills, or skills that are acknowledged by different employers. The NQF also allows any person who has successfully completed a learning programme to the required standard to obtain national credits. A person who has worked for many years in local government could in this context benefit from the RPL approach. Both frontline workers and officials should, by attending a number of short courses within a structured training programme, be able to obtain the required number of credits, which will provide them with a qualification.

The system of lifelong learning, portable skills and credits allow any person to gradually become qualified. The NQF therefore provides an opportunity for the development of career paths. In order to make local government an attractive place of work, it is important that officials and frontline workers are motivated to acquire new skills and knowledge and to convert these into work performance. Training in this context can also be used as a strategy to establish a more representative workforce by building the capacity of under-represented groups within specific positions. It is therefore important for local government role-players to establish career paths within local government specifically.

Experience from the NQF approach within other economic sectors in South Africa has shown that ensuring proper training providers is one of the most important aspects of the new training system. Adjusting local government training to the NQF will take place over a period of time. There will be a large amount of work involved in this transformation, and it

is imperative that enough financial and human resources be availed to make the transformation successful.

Local Economic Development, Public-Private Partnerships and Municipal Service Partnerships

The capacity of local government in financing and administering local economic development initiatives is an important consideration when attempting to eradicate poverty and create employment. A municipality can combine its programmes in creative ways to realise the objectives of local economic development. Maximising developmental outcomes and impacts within the Integrated Development Plan (IDP) framework requires municipalities to forge linkages between programmes in new and innovative ways. It is also important to enhance skills development initiatives aimed at upgrading skills and competencies. This is critical for sustainable economic growth.

Other programmes that have been directly aimed at building capacity within local municipalities include the Municipal Service Partnerships, which were based on the recognition that the capacity and skills within local government differ. Consequently, municipalities are assisted in the identification of potential service delivery partnerships, as well as in the development of technically sound contractual arrangements. The Municipal Infrastructure Investment Unit (MIIU) within the National Treasury also offers support and guidance to municipalities in the area of structuring Public-Private-Partnerships.

Other legislation impacting on local government capacity building include the Constitution of South Africa, Act 108 of 1996, Labour Relations Act, No. 66 of 1995, Basic Conditions of Employment Act, No. 75 of 1997, Employment Equity Act No. 55 of 1998, and the Local Government Transition Act (Second Amendment Act, No. 97 of 1996).

2.9 The objectives of local government capacity building in South Africa

The focus of local government capacity building is on strengthening the system and building the capacity of municipalities to implement new legislative and policy requirements, as well as to accelerate service delivery and development. The adoption of the Municipal Finance Management Act was an important part of the process of shaping a new local government financial system and providing synergies. This piece of legislation was passed in recognition of the critical challenge that South Africa faces regarding implementation of local government finance issues, and must be read together with the Public Finance Management Act (PFMA).

Financial issues constitute the biggest challenge confronting municipalities, thus the review of the local government finance system to achieve the aims of developmental local government. Among the issues that have been reviewed are capacity-building grants, infrastructure transfers, the fiscal powers and functions of district and local municipalities, the remuneration of Councilors and municipal managers, as well as additional sources of revenue for municipalities. The Property Rates Act, the Municipal Finance Management Act, and the Division of Fiscal Powers and Functions Act No. 12 of 2007 are all aspects of the new financial system.

2.10 Local Government capacity building in the North West province

Capacity building initiatives related to the MFMA are a joint responsibility of the Department of Provincial and Local Government and the National Treasury at a national level, as well as the North West Department of Local Government and Housing and the Provincial Treasury at a provincial level. The North West Provincial Government has established two units that play a critical role in assisting municipalities in their capacity building initiatives, as well as financial compliance.

The Department of Local Government and Housing has established the Municipal Support and Capacity Building Directorate to assist municipalities with all capacity building initiatives; while the Provincial Treasury has established the MFMA implementation unit to assist specifically with issues relating to MFMA implementation and compliance.

The functions of the Capacity Building Directorate within the Department of Local Government and Housing are to develop and maintain a system to monitor the overall wellness of municipalities; provide and facilitate specialised support to municipalities (including support interventions, but excluding section 139 interventions); provide support to municipalities to strengthen their capacity; provide effective and efficient broad-based management support to municipalities; and to monitor municipal compliance with the Property Rates Act.

The Specialised Support Unit within this directorate is especially important for MFMA implementation initiatives. This unit facilitates the process whenever multi-faceted support involving various role-players is needed at municipalities. Amongst others, it provides informal support in the case of institutional and/or financial deficiencies, performs discretionary interventions in terms of the MFMA, and assists the Provincial Treasury with mandatory interventions relating to the MFMA.

The MFMA Implementation Directorate: North West Provincial Treasury¹⁹ facilitates good governance, sound financial management, and provides support to municipalities. The Unit aims to ensure that MFMA reforms are adequately implemented in municipalities in order to promote effective and efficient service delivery to communities. It also aims to facilitate an increase in the number of investors to municipalities; promote a strategic, transparent, consultative and participatory IDP and budget process; ensure timeous and informative financial reporting; assist in ensuring better revenue management and enhancement; as well as to strengthen the relations between local, provincial and national departments.

¹⁹ The information in this section was sourced from the document entitled "Funding of the MFMA Implementation in the North West Provincial Treasury".

The unit also strives to provide a hands on working sessions approach seeking to address bottlenecks in MFMA reforms implementation, assist municipalities in procuring uniform financial systems, based at the districts, provide an efficient internal audit unit that will address audit queries, ensure coordination on the implementation of other legislation, as well as ensure the timeous and informed implementation of GRAP at a reasonable pace. The unit has identified several internal and external challenges among municipalities in the North West Province.

Internal challenges experienced by the unit include a lack of technical and financial support from the National Treasury, inability to retain and attract skilled personnel due to low salary levels, limited resources in terms of monitoring and evaluation of performance of the municipalities within the unit, lack of capacity building regarding reporting and analysing templates, lack of technical skills to advance municipalities on their finances and accounting standards, as well as the lack of intergovernmental relations and communication personnel responsible for coordination and cooperation.

External challenges include the need for revenue enhancement programmes; a high turnover rate of personnel and high vacancy rates in municipal finance departments; low competency levels of the Chief Financial Officers and municipal officials; poor performance of the shared service, internal audit and risk management units; high rate of contracting external consultants; poor financial reporting; the need to upgrade and continuously maintain Financial Systems; a lack of technical skill for the GRAP/GAMAP conversions; poor alignment of the national, provincial and municipal financial years; the need for continuous MFMA councilor training, poor implementation of internal controls, policies and procedures; the existence of Supply Chain Management units policies that have been adopted by council for malicious compliance purposes; as well as the exacerbation of amalgamating municipalities without due diligence and risk assessment being performed.

In its report on the assessment of provincial narrative reports, the Department of Provincial and Local Government made several recommendations to the North West Province, which were based on the findings of its assessment exercise on provinces. Amongst others, the

Department recommended that all departments reassess their organisational structures and present a report on how their new systems alignment will assist in improving the participation of and support that will be provided to local government. This assessment was to be complete by the end of March 2007. The Department also recommended that provinces establish dedicated monitoring, reporting and evaluation units within the Offices of the Premiers and Departments of Local Government to ensure effective coordination, information management and tracking of progress. The establishment of these dedicated units was to be completed by June 2007. Provinces were also advised to establish provincial and district monitoring, evaluation and reporting forums to facilitate the effective coordination of monitoring and reporting at a provincial level. The provincial forums were to be established by March 2007 and district forums by December 2007.

The Department further recommended that departments of local government in the provinces should assume responsibility and work closely with district and local municipalities to ensure that processes are undertaken to accelerate the filling of vacant Section 57 management posts with appropriately skilled personnel. These processes were also to include a process to ensure that all Section 57 management functionaries had signed performance management contracts with the necessary monitoring mechanisms to effectively evaluate performance that is linked to delivery. Where necessary, it was recommended that local government should be supported financially to ensure that the scarce skills that are required can be attracted and retained. In addition, all municipal manager posts and Section 57 posts were to be filled by the end of June 2007 and monthly progress reports were to be submitted to the Premier's Coordinating Forum meetings.

The Department of Provincial and Local Government observed that the alignment of budgets, capacity requirements and service delivery targets remained a challenge, and that there are a number of provinces that may not meet the service delivery targets that government has committed itself to as part of the millennium targets that have been set. The Department thus recommended that a process be undertaken to reassess the existing backlogs in relation to the funding availability and capacity to implement and advise

government timeously of any changes that may be required in respect of the set targets. This assessment was to be completed by March 2007.

Changing the mindset and understanding of functionaries among politicians with regard to the role that local government must play in economic development remains a challenge. Therefore the Department recommended that each province assess the level of understanding that prevails amongst politicians and functionaries in respect of the role that local government must play in local economic development and devise appropriate processes to ensure that a common understanding prevails, and that the necessary support and structures are provided to ensure that local economic development opportunities are maximised. Each province was also required to establish appropriate oversight mechanisms to monitor the progress of economic development at a district and local level. The establishment of the oversight mechanism was to be concluded by February 2007. In conclusion, the Department indicated that sound financial management within local government remains a challenge due to the lack of skills. In this regard, provinces were advised to ensure that sufficient resources are mobilised to support municipalities that were still struggling to submit their financial statements or were still trying to address audit queries that prevented them from receiving unqualified reports. Provinces were also advised to assess their financial statements and establish what the common causes for qualified audits were. These causes were then to be consolidated and submitted in conjunction with recommendations to the next MinMec meeting for consideration. Finally, it was recommended that provinces should ensure that district and local municipalities establish internal audit committees by February 2007. Where scarcity of resources prevailed, shared service options were to be considered.

This chapter has provided a detailed discussion of the significance of local government, important legislative and policy provisions, as well as how they interact with established institutions to create a comprehensive local government capacity building system. A discussion of national and provincial capacity building initiatives was also provided.

2.11 Case Study: The Armenian Local Government System

This section seeks to provide literature on financial capacity building initiatives in other countries. In this regard, the case for the importance of local government and the need for local government capacity building is strengthened by the inclusion of a case study of the Armenian local government system and transition process, which was similar to the South African process in many ways.

2.12 Municipal finance capacity in Armenia

Capacity building in Armenia is closely linked to the decentralisation process, which has resulted in the transfer of some duties and responsibilities from central government to local government. The country's constitutional and legislative transformation and change have necessitated intense capacity building for local government in that country. Decentralisation reforms in Armenia were divided into three phases. These are:

- 1995-1996: legislative, institutional and structural changes. Formation of the new system of public administration.
- 1997-2001: strengthening and amendment of legislative bases, and creation of the new local self-government system.
- 2002 to date: widening of the powers of Local Self-Government Bodies (LSGBs).

The public administration system in Armenia is comprised of central government and local self-government. The territorial-administrative units are: Regions (*Marz*) and Communities (*Hamaink*). State government is implemented in the regions (*Marz*) and local self-government in the communities (*Hamaink*).

International organisations such as the United Nations Development Project (UNDP), World Bank, *Deutsche Gesellschaft für Technische Zusammenarbeit* (GTZ), Urban Institute, and

the International city/country Management Association (ICMA), play an active role in the capacity building process by providing technical assistance, advice and training.

2.13 The local government capacity building process in Armenia

Institutional reforms, decentralisation and the local self-government system creation, which began after the adoption of the Constitution in 1995, were implemented in Armenia amidst insufficient resources and many limiting conditions such as limited infrastructure, literature, methodological materials, and statistical data on local governance and related issues. Moreover, there were no training centers or universities providing in-service training.

Newly elected heads of communities began the formation of their staff complements and planning for implementation of responsibilities in these difficult conditions. Community heads and elders (councilors) were neither technically equipped for the performance of their functions, nor had they received any orientation regarding the principles and values underlying the democratisation and decentralisation of government. Rural communities particularly lacked knowledge on local governance. Decentralisation was generally perceived negatively because local government leaders were aware of the challenges that lay ahead in dealing with the difficult socio-economic changes they were facing.

Since 1997, some international organisations have mainly provided local government officials with in-service training. The first training programme was offered by the International City Management Association (ICMA), which implemented a project on the Modernisation of Communities' Financial Management from 1997 to 2000, in conjunction with the Armenian School of Public Administration (ASPA). This training focused on, amongst others, budgeting, financial management and public participation. However, although the project was successful, it had only involved officials of approximately 20 communities.

Since then, ASPA has organised annual workshops for local government officials, and also implemented some local government projects funded by the Eurasia Foundation. Projects

included preparation and publication of training materials, textbooks, and the actual training of LSGBs leaders and officials. Over the last few years, the Armenian reform process has received increasing support from development agencies. For example, from March 1998 to June 1999, the United Nations Development Programme implemented a training project on *Integrated Support to Sustainable Human Development* in four regions of Armenia, i.e. in the Lori, Shirak, Siunik and Tavush Regions, with a total of 246 regional and local self-government employees being trained in the programme. This project comprised a Governance Component seeking to build the capacity of local and regional governing bodies. Training interventions focused on *Management and Leadership* targeted at the offices of the regional governors and community heads.

Another training initiative was the Individualised Family Service Plan's (IFSP) capacity building scheme, which addressed thematical areas comprising of a range of issues, including strategic thinking and planning, internal organisation, facilitation and communication skills, conflict resolution, as well as conduct of meetings. Communities were also assisted in the preparation of their annual budgets and three-year socio-economic development plans. The UNDP has also worked in conjunction with the Minister of Territorial Administration of that country in the implementation of the *Community Typology Project* that aimed to rank communities according to their development, resources and potential.

Furthermore, under USAID's local government programme, which assists local government bodies to become more effective and responsive to its citizens, nine pilot cities were selected, with the implementing agency being the Urban Institute. The major intervention areas of this project comprised support to the promotion of public participation and strengthening of the development planning and financial management capacities of targeted municipalities. In addition, a baseline study assessing the progress of local government reform in Armenia and basic consultation to some of the target municipalities in, for example, asset management, was conducted.

The GTZ has supported the Minister of Territorial Administration within the framework of a programme on the Promotion of Local Authorities. This programme focused on support to the legal framework, Information Technology support to local authorities, and the improvement of local utilities. The GTZ has also supported the creation of Inter-Community Unions in the regions (as part of its Integrated Food Security Programme in Southern Armenia), to develop local governance capacities and collaboration.

Another important contribution to the Armenian Local Self-government system came from the Save the Children Foundation, which has considerable experience in fund management and awarding funds to other organisations. The Save the Children Foundation produced a Sub-Grant Management Manual to guide fund managers and staff, and also assisted in carrying out participatory urban appraisals as part of the Urban Institute/USAID's Local Government Programme. Through its Community Development Programme in Armenia, which has been ongoing since 1995, the Foundation has successfully promoted community development and empowerment in a third of Armenia's 930 communities, and its programme methodologies and approaches have been replicated by other NGOs and cooperation agencies.

The Department for International Development (DFID), whose direct assistance programme initially concentrated on the governance, finance and agricultural sectors, has expanded its range of activities to include assistance to the Ministry of State Revenue and capacity building in the Prime Minister's and President's offices. DFID provides capacity building support to the World Bank Armenian Social Investment Fund, and also facilitates major governance and community development programmes. The World Bank has been involved in a range of economic and infrastructure development programmes, and in particular the provision of \$20 million credit for the second phase of the Armenian Social Investment Fund (ASIF).

The World Bank also provided \$16 million credit for a project to improve the management of natural resources and reduce poverty in Armenia. The project targeted two of the country's Marzes, namely, the Marzes of *Tavush* and *Gegharkunik*. The Technical Aid to the

Commonwealth of States (TACIS) has also supported programmes in the area of institutional, legal and administrative reform. During 2000-01, TACIS carried out a programme on strengthening regional capacity in *Lori Marz*. Project staff and Marz administration members elaborated a regional plan, established a regional administrative computer network and information centers, as well as developed and introduced new budgeting formats. The programme produced a number of local experts who moved from the programme into a newly created Regional Development Unit in the Marz. It is important to learn from the above programmes and to keep track of those that are currently operating, particularly in the areas of training and capacity building.

2.14 The law on local self-government and fiscal capacity building

The 2002 Law on Local Self-Government (May, 2002) attempted to address some of the limitations and deficiencies of the old law of 1996. The objectives of the new Law were to set a clearer legal framework for local governance, consistent with the country's Constitution; to establish clearer division of powers and responsibilities between the State and LSGBs, and between the different powers of Local Government bodies; to reconcile and align all local government legislation; to provide clearer power guidelines to community councils to enable them to organise their activities in a more accountable and independent way, according to their adopted house rules; and finally to enable community councils to be less dependent on the heads of community.

The law included many important changes, including provisions for the community to be recognised as a legal entity; applications to the whole territory of Armenia (whereas the previous law considered some areas as State property); provisions for land and property (assets) that were once considered State property to be transferred to communities without compensation (except if such assets were necessary for supporting national priorities such as macroeconomic growth). The Law also provided a formula (based on size in the case of very small communities; and on a combination of population and previous years land and property tax revenue in the case of the bigger territories) that was designed to ensure that

the State subsidy addresses financial differences and imbalances between the different communities.

The law further required Heads of Community to have specialised secondary or higher education, and stated that Heads of Community cannot serve more than two electoral periods. In addition, the law listed a number of responsibilities of community councilors (elders) including approval of the community development programmes; the establishment of local public user charges; approval of the number of employees, personnel list and salaries of the community head's staff and budget agencies; decision making powers with regard to the establishment, reorganisation and liquidation of community budgetary institutions and commercial and non-commercial organisations with community participation; and approval of the composition of the boards and supervisory bodies of such organisations. Community councilors further have the right to appeal the actions of community heads or the council in court.

The law provides further for the sessions of the Community Council to be open and transparent, for financial resources from the alienation of community property to fund part of the community budget, and for the State not to increase the scope of powers of the community or decrease its revenues without relevant financial compensation.

The law provides for LSGBs to receive a share of income tax, profit tax, and environmental protection fees, which are defined in the State annual budget law. It also provides for clarification of the position regarding the removal of a head of a community from office by government upon the request of the *Marzpet*, as well as clarification of State monitoring and control of local governments. The Act finally provides for the National Assembly (through its Supervisory Chamber) to perform an annual supervision of targeted utilisation of financial resources provided to communities from the State budget. In addition, the government, through the relevant state authorised body or the regional governor's office, should carry out an annual financial inspection of communities.

A shortcoming in the Armenian policy process was that the Law on Local Self-government was not followed by amendments to other laws, which created conflicts and challenges in implementation, such as contradictions with other laws.

2.15 Capacity building problems

Many LSGBs have serious capacity and resource challenges, including human resource, infrastructural, and financial capacity. Although capacity constraints affect all local authorities, they are particularly pronounced in small rural communities. Many of the 59 urban communities have administrative, financial and service departments staffed with trained specialists, as well as the necessary equipment to carry out their functions, including Information Technology equipment in an increasing number of urban LSGBs. However, such resources are greatly lacking in the rural areas. Most rural authorities also lack the funds to hire qualified specialists in management and budgeting. Therefore, many of them struggle to properly estimate the cost of the various services that communities must provide.

Critical training and capacity building needs in LSGBs include areas such as management and leadership, strategic planning and strategic thinking, participatory planning, project management, budgeting and financial management, fundraising, human rights, and gender awareness. Training programmes are also needed in the area of change management in order to assist Local Government leaders and officials to move away from a rule-bound and dependent culture towards more innovative, entrepreneurial and problem-solving approaches to their work. Training is mainly organised through international organisations such as the International City/Country Management Association (ICMA), the UNDP, the Urban Institute, as well as by NGOs and donor organisations. However, despite such interventions, a more comprehensive training system for local government employees is still needed.

The Law on Local Self-government is the only law that regulates the civil service at the local level because the Law on Civil Service does not include local government. This complicates

the implementation of civil service in broad principles of public administration, as well as in local self-government systems.

2.16 Future direction of capacity building

The Armenian government has identified a need for a decentralisation strategy that includes aspects of community enlargement, new responsibilities and delegations to LSGBs, timeous legislative development, strengthening of local government capacity, as well as allocation of financial resources in accordance with local government's responsibilities.

In addition, the logistical connection between these items is important to consider, and the expansion of local government's responsibilities and definition of corresponding amenities will support their strengthening and development. Although the development of a decentralisation strategy is a central government issue, its implementation will be the joint responsibility of central government, local governments, civil society and the private sector.

Decentralising powers and responsibilities to local governments legally and constitutionally is not, on its own, enough for development. The government has deemed it necessary to adopt the Law on Municipal Service, which defines the municipal service framework, service requirements, rights and responsibilities of municipal officials, job descriptions, matters of officials retraining, attestation and defense, their social guarantees, etc. At the same time, it is important to establish training centers for local government. Municipal officials must mandatorily be involved in in-service training, which should be included in the local budgets and transferred to the training centers. Donor organisations should assist by funding these training centers for the benefit of sustainable development.

International organisations continue to intervene in the area of financial management, including budget preparation and administration, as well as strengthening the capacities of civil society organisations. Efforts to harmonise approaches are undertaken in relation to common activities concerning public participation in local governance issues, planning of development projects, support in the delineation of functions between the regional and

local government bodies, and enhancing cooperation among municipalities as envisaged by the ISFP via the support to the formation of council associations.

In analysing the Armenian local government system, it was evident that local government structures in that country and in South Africa face the same challenges. However, South Africa seems to be ahead of Armenia in terms of the legislative and policy framework governing and regulating local government. Although the South African system is much more complex, it is also regulated by various pieces of legislation that complement each other.



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CHAPTER 3. INTRODUCTION TO THE MUNICIPAL FINANCE MANAGEMENT ACT

This chapter provides a detailed discussion of the provisions of the Municipal Finance Management Act, which aims to regulate financial management and provides uniform treasury norms and standards for the local sphere of government. This piece of legislation is a critical element in the transformation of local government as envisaged in the 1998 White Paper.

Budget transparency in South Africa is embedded in the Constitution, particularly Section 215 of the Constitution, which states that national, provincial and municipal budgets and budgetary processes must promote transparency, accountability, etc. Sections 17 and 22 of the MFMA, as well as Section 27 of the PFMA set out roles and responsibilities, as well as establish reporting requirements and stipulate sanctions.

The MFMA aims to modernise budget and financial management practices by placing local government finances on sustainable ground. The Act also aims to establish a sound financial governance framework by clarifying and separating the roles and responsibilities of the Mayor, Executive and Non-executive councilors and officials. It therefore serves to maximise the capacity of municipalities to deliver services to all their residents, customers, investors and other stakeholders.

The MFMA, together with more stringent accounting reporting standards, was implemented with the aim of clarifying fiscal relations between the three spheres of government. The objectives of the MFMA are to secure sound and sustainable management of the financial affairs of municipalities and other institutions of Local Government, as well as to establish treasury norms and standards for the local sphere of government.

The underlying principles of the MFMA are consistent with other local government legislation. These principles, and the specific reforms they flow from, encourage a stronger, well managed and more accountable local government sphere that is better suited to meet the needs and expectations of communities.

The most significant matters in the MFMA relate to the new budget process and its link to the Integrated Development Plan (IDP), new accounting standards and formats, establishment of audit committees²⁰ 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.

3.1 The MFMA implementation plan ²¹

All municipalities are required to prepare an MFMA implementation plan that focuses on what the municipality intends to implement and achieve over a three to five year period. The plan is required to contain a list of activities, with their target and actual performance dates and timeframes, and provisions to indicate on-going progress with comments, and a responsible councilor/official for each activity. The plan should also include implementation issues on amendments to the Municipal Systems Act and be submitted to the National Treasury on a particular stipulated date.

The reforms contained in the MFMA require all municipalities to take a new approach to financial management and review how they manage change across their organisations.

²⁰ An Audit Committee is an independent committee or advisory body that must advise the municipal council and the Board of Directors of a municipal entity on certain internal control issues. The Audit committee advises on issues such as internal audits, risk management and control, accounting policies, effective governance, and other internal control matters.

²¹ An implementation plan focuses on what a municipality plans to implement and achieve over the next three to five years. It contains a list of activities, together with target and actual dates.

The MFMA requires municipalities to review (and where necessary to change) their systems of budgeting, income and expenditure, cash management, banking, supply chain management, investments, borrowings, assets, liabilities, reporting, internal audit, internal control, etc. Municipalities are further required to review their systems of delegation and their finance related by-laws and policies, establish a budget and treasury office, and ensure that their officials meet new prescribed competency levels in financial management.

Such changes can only be possible if a municipality addresses these reforms in a holistic manner, at both an individual and organisational level, and in a manner that promotes a change by all role-players. In order to address the scope of the reforms, municipalities were first required to take stock of what is required and then develop a plan of action that lists every step to implement the Act properly. The "*MFMA implementation plan template*" was developed by the National Treasury to assist municipalities in this regard. The implementation plan template provides municipalities with a starting point to manage the reforms contained in the MFMA and in other financial management legislation. The steps to be taken in developing an implementation plan include:

Establishing a steering committee – the steering committee assists in managing MFMA implementation. Whilst the National Treasury does not stipulate the composition of the steering committee; it nevertheless recommends that top management be involved, including the Municipal Manager and the Chief Financial Officer.

Choosing the appropriate worksheet – the worksheet used depends on the category of municipality, i.e. low, medium and high capacity.

Reviewing the functional split – activities are grouped into 8 functional areas, ranging from "*management arrangements*" to "*in-year and annual reporting*". Municipalities should review the functional split of activities to determine whether it suits their needs, or rearrange them accordingly.

Reviewing the action required: planning.

Reviewing delegations – allocating responsibilities.

Establishing appropriate target dates – targets should be realistic, and officials and councilors should be held accountable to undertake tasks required of them by the due date.

Monitoring and reporting progress – municipalities should use their implementation plan as a basis to determine responsibilities and as a performance measure linked, where possible, to employee performance agreements. This will also assist the Municipal Manager in addressing any shortcomings.

Ongoing development and review – ongoing development and review of the implementation plan by municipalities is important in ensuring that the plan remains flexible and relevant. Once finalised, the plan should be re-assessed on a regular basis (and amended, if necessary), to prevent bottlenecks in implementation.

3.2 Forbidden activities²² and long term borrowing²³

Section 164 (1) (c) of the MFMA states “*no municipality or municipal entity may make loans to councilors and officials of the municipality, directors or officials of the entity, or members of the public*”. This section does not apply to allowances, bursaries, housing or transport schemes, and advances on salary, as these are not considered as loans.

Sections 46 and 108 of the MFMA further requires a municipality or municipal entity to invite the National Treasury, the relevant Provincial Treasury and the public to submit written comments or representations to the Council or Board of Directors in respect to the raising of any proposed debt through borrowing or any other instrument. Municipalities are further required to submit quarterly borrowing monitoring returns.

²² Activities relating to section 164 (1) f the MFMA, which states “no municipality and municipal entity may make loans to councilors or officials of the municipality, directors or officials of the entity, or members of the public”.

²³ Debt repayable over a period exceeding one year, as captured in sections 46 and 108 of the MFMA.

3.3 The budget process²⁴ and the annual report²⁵

The MFMA requires municipalities to produce their Annual Financial Statements²⁶ in compliance with the Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Boards (ASB) and regulated by the Minister of Finance at the end of the financial year. In August 2002 the ASB reviewed and approved the Statements of Generally accepted Municipal Accounting Practice (GAMAP) and developed new GRAP standards²⁷. Since 1998, the National Treasury has conducted national capacitation programmes on GAMAP, including workshops, training and guidelines.

Where a municipality or municipal entity cannot comply with the relevant standards, or part thereof, a written application for exemption, as stipulated in Section 177 (b) of the Act, may be made to the National Treasury. Such an application must be fully motivated, providing, amongst others, the reasons for non-compliance and advising time frames and milestones towards achieving full-compliance. The written application must be signed by both the Municipal Manager and the Mayor.

The most important documents tabled for any municipality or municipal entity are its IDP, budget²⁸ and annual Report. The IDP and budget are forward looking, and set out what the municipality intends to do and the funds it will raise and spend. The Annual Report, on the other hand, is backward looking, and reports on actual performance at the end of the financial year, particularly on how the IDP and budget were implemented. In terms of

²⁴ The steps or processes to be followed in preparing a budget, inline with the Municipal Finance Management Act, No. 56 of 2003 (MFMA).

²⁵ A report that provides feedback on the service delivery and performance of a municipality or municipal entity, as well as information on budget implementation.

²⁶ Statements of the financial position of a municipality. These include a balance sheet, income statement, cash flow statement, and other financial statements.

²⁷ Section 216 (1) (A) of the Constitution requires the National Treasury to introduce GRAP. To give effect to this provision, the Minister of Finance established the ASB in terms of section 87 (1) of the PFMA. Section 122 (3) of the MFMA requires municipalities and municipal entities to prepare financial statement in accordance with GRAP.

³³ A policy document that indicates government revenue and planned expenditure. The budget serves as a planning document that informs service delivery.

Annual Reports, the MFMA requires that the Annual Report contain several consolidated financial and non-financial information about the municipality. The annual report provides an authoritative record of the activities and performance of the municipality for each financial year. The MFMA is specific regarding the contents of the Annual Reports, timelines for producing the Annual Report, as well as its prescribed format.

3.4 Supply chain management²⁹

Supply chain management has been a major challenge for municipalities, and as such, the Minister of Finance (in terms of Section 180 of the MFMA), initially delayed the implementation of most of the supply chain management provisions (Sections 110 to 116) in order to assist municipalities to phase in these reforms smoothly.

In terms of the appointment of tender committees, Section 60 of the Act rests the responsibility and accountability of implementing the MFMA on the Accounting Officer. Section 93 further prescribes that, in the case of a municipal entity, the Chief Executive Officer will be the Accounting Officer. Section 117 forbids the involvement of councilors in any tender or bid Committee. Instead, the responsibility both for expenditure and tendering rests with the Accounting Officer. Section 118 further makes it an offence to interfere with a Supply Chain Management system, including any tenders, quotations, bids, contracts, and their submission.

Both the MFMA and the Municipal Supply Chain Management Regulations require each Council and Board of Directors of a municipal entity to adopt a policy to give effect to the Supply Chain Management legislative provisions. The National Treasury has developed several documents and guidelines to guide municipal Supply Chain Management, including the municipal Supply Chain Management Regulations, the General Conditions Of Contract (GCC), Municipal Bidding Documents, and a Guiding Document For Accounting Officers Of Municipalities.

²⁹ Processes to be followed in issues regarding the supply of goods and services or disposal of assets or goods no longer needed by a municipality or municipal entity.

3.5 The oversight³⁰ role of the council³¹

The Municipal Council is constitutionally mandated to oversee the performance of their respective municipality. The MFMA and the Municipal Systems Act (MSA) recognise that Council has an important role to play to ensure optimal performance by municipal departments and entities.

The Council has a duty to ensure that the Accounting Officer executes the Council's policy. The Accounting Officer should, on a monthly basis, report to the Executive Mayor/Executive Committee on at least a quarterly basis in order to report to Council on progress regarding the implementation of its policies. This report should include progress made in respect of achieving the objectives prescribed in the Council and government's policies.

The financial management reforms envisaged in the MFMA place greater service delivery responsibilities on managers and make them more accountable for performance. Whilst in the first place it is left to the Mayor or the Executive Committee to resolve any performance failures, ultimately the Council is vested with the power to, and responsibility to, oversee both the executive and administration. Oversight thus occurs at various levels in a municipality.

The separation of roles between the Council and administration is intended to strengthen the oversight function of councilors. Good governance and effective oversight and accountability are predicated on there being this separation of functions. It is fundamental for the achievement of the objects of local government in the Constitution relating to a democratic and accountable system of local government. Council oversees the performance of the administration through Council and Committee meetings, while the

³⁰ The pro-active interaction initiated by a legislature or municipal council with the executive or administration, or other organs of state, that encourage compliance with constitutional obligations, such as State, that encourage compliance with constitutional obligations, such as being accountable to elected representatives, good governance, development and cooperative governance⁵.

³¹ The Municipal Council.

mayor provides the link between the council and administration and is responsible for regular monitoring and for tabling reports before the Council. Therefore the administration is responsible for the day-to-day operations of the municipality.

The MFMA further assumes a separation between councilors serving on the executive (i.e. Mayor and Executive Committee) and non-executive councilors. This separation is vital to ensure Council maintains oversight for the performance of specific responsibilities and delegated powers to the Mayor or Executive Committee. The MFMA gives the Council a number of financial management tasks to fulfill its oversight role, including the adoption of an "Oversight Report"³². The Oversight Report is the final step in the annual reporting process of a municipality. The MFMA is specific regarding the contents of both the Annual Report and the Oversight Report.

3.6 Delegations³³

The MFMA phase-in strategy includes a requirement to delegate additional responsibilities to the respective Member of Executive Council (MEC) for Finance and Provincial Treasuries. In order to achieve the effective and holistic operation of the MFMA, the Minister of Finance has delegated certain responsibilities to the MECs for Finance in all provinces relating to support, oversight and administrative procedures of municipalities within their respective provinces. The National Treasury has, however, retained the monitoring and administrative role in relation to the largest municipalities in each province. In addition, any requests for policy advice are directed to the National Treasury, while Provincial Treasuries perform oversight and administrative roles. These range from rendering advice and support, training and issuing guidelines, developing processes and procedures, responding to enquiries, as well as monitoring and implementing the MFMA.

³² A report of the Municipal council that indicates whether Council has accepted or rejected the annual Report, or sent it back for review and amendments.

³³ Delegations constitute an instruction, command or request to perform a duty or assist in its performance. It also includes a transfer of responsibility, but not accountability.

Specific roles of provincial treasuries include conducting quarterly reviews of MFMA implementation plans; ensuring ongoing compliance with MFMA reforms and monitoring progress against planned outputs; scheduling and conducting consultations and visits to municipalities; evaluation of content and quality of budget reporting required from municipalities; monitoring the linking of budgets with IDP, Service delivery and Budget Implementation Plan (SDBIP) and performance contracts of senior managers; monitoring publications on municipal websites; ensuring that budget return forms are submitted accurately and timely; consolidating and publishing required in-year reporting, monthly and quarterly reports; receiving copies of the Annual Financial Statements submitted to the Auditor-General for auditing; consulting with municipalities on the quality and content of the Annual Financial Statements and Annual Reports; as well as monitoring and assisting with training and support in implementing the Supply Chain Management System, Public Private Partnerships (PPPs), new GRAP standards, internal control and audits, as well as other related activities in terms of the MFMA.

The Minister of Finance is still responsible for administering the MFMA in its totality. Each provincial treasury has appointed an MFMA coordinator who serves as the contact person for municipalities. The MFMA coordinator must ensure that all MFMA related matters are appropriately addressed in the province, and also ensure that other role-players in the province that impact on the successful implementation of the MFMA (e.g. local government departments and supply chain units) are addressing implementation in a coordinated manner.

In addition to provincial delegations, the Act provides for delegations within municipalities. Section 79 of the Act empowers the Accounting Officer to delegate decision-making powers to employees. All delegations to senior managers should be in writing, and it does not shift accountability from the Accounting Officer.

3.7 Disputes between organs of state

Section 44 of the MFMA provides for an additional remedy to resolve disputes between Organs of State. This section requires that parties to a dispute must first and foremost take all necessary and reasonable steps to resolve the matter out of court, and then report the dispute to the National Treasury. Furthermore, if the National Treasury is not party to the dispute, the parties may request the Treasury to mediate, or designate a person to mediate the dispute. Section 44 only applies where a dispute of a financial nature has arisen between two or more Organs of State, of which at least one is a municipality or municipal entity³⁴. It applies between spheres and within the local government sphere.

3.8 Bulk resources for municipal services

The MFMA promotes cooperative approaches to fiscal and financial management across government. In the spirit of cooperative governance, the MFMA requires Organs of State that supply bulk resources to consult on pricing policies that impact on municipal services. Section 42 of the MFMA requires extensive consultation before an Organ of State can increase the price of bulk resource services supplied to a municipality or municipal entity.

This forms part of government's effort to ensure consistent policy implementation and achievement of macro-economic objectives. This process is comprehensive and must be completed timely and contain motivations to be tabled in Parliament or the relevant provincial legislature. Careful planning is required to meet the obligations of the MFMA before the pricing amendments can take effect. The MFMA requires that municipalities be more transparent, as it requires minimum levels of reporting and accountability.

³⁴ A dispute of a financial nature relates to disputes arising from financial implications or consequences relating to the exercise of statutory or assigned powers and functions; or financial rights and obligations in terms of an agreement (contract) between organs of state regarding the implementation of statutory powers or functions.

3.9 The budget process

The MFMA provides for the IDP review and budget processes to be one process in order to facilitate community input, encourage discussion, promote a better understanding of community needs, provide ward level information, encourage discussion on priorities, provide an opportunity for feedback, and improve accountability and responsiveness to the needs of local communities. It also positions the municipality to represent the needs of the community and to provide useful inputs to the relevant provincial and national department strategies and budgets for the provision of services. To facilitate this process, it is incumbent upon municipalities to identify and prioritise the competing needs of the communities within their jurisdictions.

The six distinct steps to the preparation of a budget are:

Planning: this entails the coordination of the budget preparation process, and the review of the previous financial year's budget process. This includes scheduling key dates, establishing consultation forums and reviewing previous processes.

Strategising: includes a review of the IDP and budget related policies, internal consultations within the municipality, as well as external consultation with the community and other stakeholders. This includes setting service delivery targets for the next three years, as well as consulting on tariffs, credit control, free basic services, etc. It also entails considering local, provincial and national issues; previous year's performance, as well as current economic and demographic trends.

Preparing: prepare revenue and expenditure projections, draft budget policies, as well as consult and consider local, provincial and national priorities.

Tabling: table the complete proposed budget, IDP revisions and budget related policies before Council, consult with and consider formal local, provincial and national inputs or responses.

Approving: council approves the budget and related policies.

Finalising: publish and approve SDBIP and annual performance agreements and indicators.

Both the MFMA and the Municipal Systems Act require extensive consultation with the local community for important decisions like budgets, tariff setting, borrowing, IDP's, performance systems, Annual Reports, etc. Section 16 of the MFMA requires the budget resolutions, proposed revisions to the IDP, budget related policies, and other required supporting documentation to be tabled before a full Council meeting at least 90 days before the start of the budget year. This allows adequate time for consultation prior to the approval of the budget and ensures that councilors are aware of the budget implications so they can consult with their constituents.

The MFMA also requires consultation with relevant government departments and municipalities affected by the budget. Consultation with provincial and national government departments will ensure improved cooperative governance between spheres of government. The National Treasury has recommended that municipalities contact their provincial treasuries to coordinate consultation meetings with relevant provincial departments. This engagement will ensure better coordination, alignment and resource allocation from provincial and national governments.

District and local municipalities are required to consult each other when finalising plans and budgets to ensure that allocations between them are aligned, priorities are addressed and implementation is executed during the year. The MFMA requires that municipalities submit their tabled and approved budgets to the National Treasury and the relevant provincial treasury. Provincial treasuries have become progressively more involved with the monitoring and support of municipal finance management as capacity has been developed

in this area over time. The National Treasury aims to find ways to ensure that submission of information is streamlined and requests for information from government departments are not duplicated.

It is critical that the mayor coordinate a schedule of key deadlines for all the required meetings, workshops, community forums, etc early on in the budget process, as well as publicise this schedule so that those being consulted are aware of their opportunities for input into the IDP and budget process.

In terms of budget processes, the draft budget must be tabled to Council 90 days before the start of the budget year and submitted to National Treasury. The approved budget, in turn, must be tabled to Council 30 days before the start of the budget year, and approved before the start of the budget year and submitted to National Treasury. All municipal budgets must be funded according to Section 19 (1) of the MFMA and must also be credible.

3.10 The Service Delivery Budget Implementation Plan (SDBIP)

The SDBIP gives effect to the IDP and budget, and ensures that they are fully aligned with each other, as required by the MFMA. The budget gives effect to the strategic priorities of the municipality, whereas the SDBIP serves as a "contract" between the administration, Council and community, expressing the goals and objectives set by the Council as quantifiable outcomes that can be implemented by the administration over the next twelve months. This provides the basis for measuring service delivery performance against end-of-year targets and implementing the budget.

The SDBIP is a management, implementation and monitoring tool that aims to assist the Mayor, Councilors, municipal management and the community. It aims to ensure that appropriate information is circulated internally and externally for purposes of monitoring the execution of the budget, performance of senior management and achievement of the strategic objectives set by Council. It enables the Municipal Manager to monitor the

performance of senior managers, the Mayor to monitor the performance of the Municipal Manager, and the community to monitor the performance of the municipality. The SDBIP should therefore determine, and be consistent with, the performance agreements between all stakeholders in the municipality. It must also be consistent with outsourced service delivery agreements such as municipal entities, public-private partnerships, service contracts, etc.

The SDBIP sets in-year monitoring information, such as quarterly service delivery and monthly budget targets, and links each service delivery output to the budget of the municipality, thus providing credible management information and a detailed plan for how the municipality will provide such services, as well as the inputs and financial resources to be used. The SDBIP indicates the responsibilities and outputs for each of the senior managers in the top management team, the inputs to be used, and the deadlines for each output. The SDBIP will therefore determine the performance agreements of the Municipal Manager and senior managers, including the outputs and deadlines for which they are responsible. It should also provide all expenditure information (for capital projects and services) per municipal ward, so that each output can be broken down per ward, where possible, to support ward councilors with service delivery information.

The SDBIP enables the Mayor and Municipal Manager to be proactive and take remedial steps in the event of poor performance. It aims to ensure that managers are problem solvers who routinely look out for unanticipated problems and resolve them as soon as possible.

This chapter has provided a discussion of the provisions of the MFMA that, if adhered to, can assist municipalities significantly in terms of financial management, planning and managing their budgetary regulations, as well as aligning budget processes to performance management. Such planning could increase the proficiency and efficiency of financial management and regulation within municipalities, thereby impacting on municipal service delivery.

CHAPTER 4. TRAINING AND CAPACITY BUILDING INITIATIVES IN MUNICIPALITIES

This chapter contains the main capacity building programmes that have been developed by the National Treasury to assist municipalities in strengthening their MFMA implementation capacity. These include the internship and mentorship programmes, the competency regulations and reporting guidelines. Capacity building initiatives should be based on a need that is identified, e.g. through research, which should then guide the design and implementation of such programmes.

The Municipal Finance Management Reform Framework has been guided by the 1998 Local Government White Paper, as well as the development of financial reforms contained in the MFMA. The National Treasury has assisted in the recruitment of over 100 financial management interns to assist with the implementation of the MFMA. These graduates in finance, economics, accounting and other related fields are provided with hands-on training in municipalities. The Treasury also provided municipalities with workshops, courses and supporting material to assist with the implementation of the financial reforms in several areas. Training has also been provided both for finance personnel and political heads of municipalities. All training is aimed at building financial management skills and capacity in a sustainable, well-structured manner, and is focused towards addressing the key challenges of the MFMA.

The National Treasury is at the forefront of MFMA training and is responsible for regulating training standards. The SAQA has also accredited several organisations to offer MFMA training. Training providers are required to apply to have their training material accredited by the LGSETA and validated by the National Treasury. The material must be of acceptable

quality and consistent with other policy reforms and legislation. Provincial treasuries and Accounting Officers also have a role to play in the training.

4.1 Municipal Finance Management Internship Programme (MFMIP)

The effective implementation of the municipal reforms required by the MFMA is hampered by a lack of sufficient and relevant management capacity in a significant number of municipalities³⁵. The Treasury thus introduced an internship programme in those municipalities that are participating in the Municipal Finance Management Reform Programme (MFMRP) but have insufficient capacity to carry out this task. The internship programme seeks to assist in building sufficient capacity at local government level. The programme, which is supported by a financial management grant, is designed to support and implement the MFMA and forms part of government's capacity building initiative focused on building in-house municipal capacity.

The MFMIP aims to assist municipalities to increase their capacity to implement both the Municipal Finance Management Reforms and the MFMA, as well as address the acute shortage of strategic management in the local government sphere. The MFMIP seeks to assist municipalities to develop the knowledge and skills of the interns employed under this programme in areas such as strategic planning, strategic management, municipal budgeting and finance management. To give effect to the MFMIP, the National Treasury, in conjunction with various stakeholders, such as Municipal Managers, Chief Financial Officers and interns, developed a set of guidelines that provide guidance to municipalities on how they should proceed in providing relevant on-the-job training and mentoring to the interns contracted to them.

The MFMIP is designed to provide interns with a logical training sequence founded on the knowledge competencies they acquired at the universities or technikons they graduated from. It is envisaged that through workplace interaction with and mentoring by Chief

³⁵ A Guide to implementing the Municipal Finance Management Internship Programme, National Treasury.

Finance Officers, Municipal Managers and/or international advisors, the interns will benefit from the expertise and experience of these officials.

The MFMIIP is therefore an organised professional training and work experience programme with the goal of providing quality training and practical exposure in all aspects of municipal finance management. The programme has a logical training sequence that builds on the skills and competencies acquired during technikon and university training. Municipalities are required to provide a suitable learning environment for these interns.

All participating municipalities are required to have a well-documented structure for managing the programme, which is to be coordinated by the Chief Financial Officer. The National Treasury has recommended that an internship implementation team be formed, comprising the training coordinator, an intern's immediate supervisor, a representative of the employees and a representative from the training providers (technikon or university). These parties should perform several functions, including facilitating the planning, preparation and implementation of the internship; compiling a budget for the internship; developing a communication strategy with all stakeholders; establishing an administration system to support the internship; liaising with coordinators of other municipalities involved in the programme; establishing criteria for mentor and intern selection; coordinating the identification and selection of interns, mentors and assessors; coordinating the selection of assessors accredited by the relevant SETA to assess interns; coordinating on-the-job and off-the-job structured learning; liaising with education and training providers; as well as continuously monitoring progress.

Interns are required to have a Personal Development Plan and identify mentors, who should be experts in finance, planning, economics or accounting. Municipalities also have a responsibility in identifying appropriate training providers, monitor and evaluate the training programme, as well as provide policies that govern issues such as recruitment and qualifications required; administrative and financial arrangements; intern performance evaluation, feedback, retention and termination decisions; level of work achievement required for interns to be considered competent and to complete the internship

programme; as well as due progress and grievance procedures for interns. Municipalities are required to select at least two interns with the required qualifications, who will then sign an employment contract with the municipality.

4.2 A guide to municipal finance management for councilors

The guide to municipal management for Councilors was developed to ensure that Municipal councilors have sound financial management systems and procedures. While managers are responsible for managing and implementing policies and legislation, Councilors are responsible for oversight work. This principle is key to effective service delivery at municipal level. Officials are held responsible for their performance by regular and consistent reporting to Councilors through the formal structures within municipalities. Councilors, in turn, should use the regular in-year reports, reviews and Annual Reports as tools to ensure effective oversight. The challenge is to improve the efficiency and effectiveness of municipalities through the best use of management practices.

Every decision maker in the Local Government sphere must take ownership of the actions required to ensure successful and sustainable financial management in order to improve service delivery to their communities. Councilors make decisions about how funds will be spent to progressively improve the lives of their communities, and therefore should account for how those funds will be used.

4.3 Guidelines for municipal competency levels

The National Treasury has issued five series of guidelines to explain the minimum competency levels required of municipalities in implementing the MFMA. The competency regulations apply to the officials of a municipality or a municipal entity, but do not apply to councilors and political office bearers. Also, although Chief Financial Officers are also Senior Managers, the competency regulations prescribe different minimum competency levels for the position of Chief Financial Officer versus what is prescribed for all other Senior Managers. This is due to the MFMA assigning specific responsibilities to Chief Financial

Officers over-and above what is required from all other Senior Managers. The guidelines have specific focus areas. Guideline 1 relates to Accounting Officers (Municipal Managers and Chief Executive Officers (CEOs) of municipal entities), guideline 2 to Chief Financial Officers only, guideline 3 to senior managers, guideline 4 to finance officials at middle management level, and guideline 5 to heads of supply chain management units and supply chain managers.

The Competencies specified in the regulations are the minimum required for municipalities or municipal entities, and the standards cannot be lowered. In fact, Municipalities are encouraged to employ officials with a higher standard of competency than what is required in the regulations. However, each municipality or municipal entity should decide whether setting a competency above the minimum level is more appropriate in their specific circumstances. The following competencies have been identified:

Financial and supply chain management competencies

Financial and supply chain management competencies include strategic leadership and management; strategic financial management; operational financial management; governance, ethics and values in financial management; financial and performance reporting; risk and change management; project management; legislation, policy and implementation; stakeholder relations; supply chain management, as well as audit and assurance.

Core managerial and occupational competencies

In addition to financial and supply chain management competencies, Chief Financial Officers are required to have core managerial and occupational competencies, as described in the DPLG Performance Regulations. The DPLG competencies and the attainment of the MFMA financial and supply chain management competencies must be included in the Chief Financial Officer's performance agreement.

Higher education qualifications

In terms of higher education qualifications, senior managers should preferably have or attain, by 1 January 2013, a higher education qualification in the fields of accounting, finance or economics. Higher Education Qualification Municipal budget requirements include at least NQF level 6 in the fields of Accounting, Finance or Economics, or a certificate in Municipal Financial Management in all municipalities with annual budgets of a value below R500 million; and all municipal entities of a parent municipality with an annual budget of a value below R500 million. Further requirements include at least NQF level 7 in the fields of Accounting, Finance or Economics, or Chartered Accountant (SA) for all municipalities with annual budgets of a value equal to or above R500 million; and all municipal entities of a parent municipality with an annual budget of a value equal to or above R500 million.

Work-related experience

Municipal Officials must be able to demonstrate previous work related experience. This is to be at a senior management level or middle management or a combination for a period between 5 to 7 years, depending on the budget size of the municipality or municipal entity. The municipality or municipal entity should consider work related experience obtained by an applicant both within and outside the local government sphere to qualify towards the required minimum.

The implementation of competency regulations should follow the following steps:

Step 1: Establish a steering committee, reporting to the Accounting Officer.

Step 2: Assess current competency levels of officials to identify gaps.

Step 3: Prepare training strategy to address gaps and a budget up to 1 January 2013.

Step 4: Staff should undertake SAQA recognised training to address identified gaps.

Step 5: Performance agreements should incorporate attainment of competencies.

Step 6: Recruitment procedures should include new competency requirements.

In addition, each municipality is required to furnish half yearly implementation returns to the National Treasury, relevant Provincial Treasury and Council each year. Where the municipality has entities, the half yearly implementation returns should include consolidated information on all its municipal entities. Until 30 July 2015, all municipalities are required to furnish their consolidated half yearly implementation returns within one month of the end of the reporting period to the National Treasury, relevant provincial treasury and council. Furthermore, the annual report of the municipality and municipal entity must include the information as at the end of the financial year to which it relates. The information must be reflected in the format of an Annexure to the competency regulations. This requirement does not lapse at the same time as the half yearly implementation returns.

The municipal competency regulations took effect on 1 July 2007 and impact on selected officials in all municipalities and municipal entities. The Accounting Officer has a responsibility to ensure that officials are assessed against the competency requirements and appropriate resources or opportunities are provided to address any gaps. An implementation period of 5 ½ years has been provided allowing a reasonable time for officials to be assessed and undergo training where required. Existing officials and new appointments have until 1 January 2013 to comply with the competency regulations. The attainment of competencies and qualifications must be a condition of employment, reflected in the official's performance agreements. After 1 January 2013 all officials and new appointments must meet the competency requirements, and persons who do not meet the competencies cannot be appointed.

In terms of transitional arrangements (competency categories) and institutional arrangements for implementing the MFMA, it is firstly important to understand how these competency regulations will apply to existing financial officials versus new appointments in these positions. In this regard, the transitional arrangements provide for an implementation period until 1 January 2013, to allow existing officials and new recruitments a reasonable period to attain the necessary competencies. During the implementation period, the continued employment of officials that do not meet the prescribed competency

levels is subject to a condition that the official attains the competencies no later than 1 January 2013. After 1 January 2013 no person may be employed who does not meet the competencies prescribed in the competency regulations.

Further, in terms of implementing the MFMA, all municipalities were surveyed in 2003 and 2004 in relation to their financial management skills and capacity, and were subsequently classified, for the purposes of implementing the MFMA, as high, medium and low capacity municipalities. This classification was based on each municipality's ability to implement the reforms, using information collected from the municipalities themselves. In this regard, high capacity municipalities were required to comply earlier than municipalities in lower capacity categories.

The MFMA phase-in plan was designed to allow municipalities' adequate time to fully implement the reforms envisaged in the Act. In order for the MFMA to be implemented properly, all parties must take ownership of the implementation process. The steps in the implementation process were clearly articulated to municipalities by the National Treasury. All municipalities had to develop a three to five year implementation plan, with realistic deadlines, set by the municipalities themselves. All municipalities, irrespective of their capacity, were required to comply with several priorities, including preparing an implementation plan, focusing on what the municipality aims to implement and achieve over the next three to five years; the Municipal Manager must be the Accounting Officer responsible for all funds managed by the municipality; establishing a top management team with a person responsible for the duties of the Chief Financial Officer and delegations; implementing Chapter 3 of the MFMA to ensure effective cash management and the control of all banking accounts by the Chief Financial Officer; implementing systems to ensure that all financial commitments are met; ensuring that there is monthly reporting on revenue and expenditure patterns; revising supply chain management policies as and when required; implementing the Municipal Systems Act amendments and MFMA for all corporate or municipal entities, Public-Private-Partnerships, long-term contracts and borrowing; completing past financial statements for submission to the Auditor-General by 30 April annually; submitting and tabling the current year's financial statements by 30 September

annually; complying with the membership provisions of tender committees and boards of entities; as well as complying fully with the annual Division of Revenue Act.

Moreover, in the short-term, municipalities were required to prioritise the establishment of a budget and treasury office and the appointment of a Chief Financial officer. Municipalities were also required to conduct an audit of all corporate and municipal entities, establish an internal audit unit and audit committee, and address audit queries raised in past audits.

The chapter has looked extensively at the capacity building initiatives of the government, including programmes such as the Municipal Finance Management Internship programme, the guide to municipal finance for councillors, and the guideline for municipal competency levels, as well as their potential benefits and contributions to financial stability and regulation in the country.

Other municipal capacity building initiatives include Project Consolidate³⁶; the Local Government Leadership Academy (LOGOLA), which is an individually based leadership programme directed at accelerating and improving service delivery to communities and strengthening the sustainability of local government by enhancing the leadership competencies of elected officials and appointed officials. The Municipal Finance Support Programme further focuses on enhancing key financial management capacity in selected municipalities, and includes the deployment of Institute of Municipal Finance Officers (IMFO) technicians to 42 Municipalities to assist with compilation of Annual Financial Statements. In collaboration with the Development Bank of Southern Africa (DBSA), the Department of Provincial and Local Government has also embarked on the *Siyenza Manje* initiative, which recruits qualified retired experts, pairs them with young graduates as mentors and deploys them to local municipalities that need assistance, particularly in terms of implementing infrastructural projects.

³⁶ A hands-on and targeted support initiative aimed at weaker municipalities with significant capacity gaps.

The Integrated Sustainable Programme for Rural Development (ISRDP) provides targeted financial and technical support to identified rural nodal municipalities, while the ENERGYS programme deploys senior managers paired with students and graduates in local authorities to assist municipalities, offering comprehensive training to both students and graduates. The implementation of the Municipal Revenue Enhancement Programmes further assists in improving and sustaining revenue collection, alleviating the causes of municipal service debts, extending basic services (particularly free basic services) through strategically pooled resources, as well as clarifying national government policies pertaining to service delivery³⁷.

The programmes discussed in this chapter are examples of programmes that aim to increase the ability of municipalities to deliver on their mandates and meet the needs of their communities. The capacity of local government to deliver on its developmental mandate is important for the development of prosperous and sustainable communities. Capacity building aimed at ensuring that local government meets its financial, administrative and other functions can go a long way in improving the quality of service delivery. Much of the capacity building programmes emphasise mentoring and the need for skills transfer from mentors to young graduates. National programmes such as the Joint Initiative on Priority Skills Acquisition (JIPSA) are also emphasised in the regard.

³⁷ See select reference list

CHAPTER 5. ASSESSING THE CHALLENGES FACING MUNICIPALITIES IN THE NORTH WEST PROVINCE

This chapter contains the results of the data that was captured in the completed questionnaires from municipalities.

5.1 Data collecting methods and measuring instruments

The data that is analysed below was collected by means of a questionnaire (Appendix A). The questionnaire was designed so as to capture the capacity constraints of municipalities and how this will impact on their ability to implement the Municipal Finance Management Act (MFMA). The questionnaire focuses broadly on institutional capacity constraints, including human resource, infrastructural, and financial capacity. It further enquires about past efforts by the relevant national departments, i.e. the National Treasury and the Department of Provincial and Local Government, to capacitate municipalities.

In order to supplement the information that was gathered from the questionnaires, as well as to further validate the survey results, officials from both national and provincial government departments were interviewed. Chief among these were officials from the North West Provincial Treasury, which plays an important role in municipal financial capacity building.

5.2 Survey results

The questionnaire was distributed among all 25 municipalities in the North West, as this is not a very big sample (Appendix C). However, only 12 municipalities responded to the questionnaire. These include two district municipalities and ten local municipalities. The

municipalities that did not respond were left out of the analysis due to time constraints. In addition, the Greater Taung Local Municipality did not respond to most of the questions, and the questionnaire was therefore redundant and is not included in the sample. The remaining sample, however, is still representative as it covers municipalities from all the regions of the province (Appendix B). The results of the survey are presented below:

Category and classification of municipalities

In terms of the categories of municipalities sampled, 82% were local municipalities, while 18% were district municipalities. This is fairly representative of the population of municipalities in the North West Province, which has a total of 4 district municipalities and 21 local municipalities. In addition, 55% of the municipalities surveyed were classified low capacity, 27% were classified high capacity, and 18% were classified medium capacity. It is worth noting that the high capacity municipalities are the Bojanala Platinum District Municipality and the Merafong Local Municipality. These two municipalities are situated in the Bojanala and Southern districts of the North West province, which account for approximately 70% of the province's Gross Geographic Product (GGP)³⁸.

Capacity to implement the MFMA

In terms of municipal capacity to implement the MFMA, most municipalities indicated that they were confident of their capacity to implement the MFMA. This is despite the fact that these are mostly low-capacity municipalities. Even in cases where municipalities did not yet have perfect organisational structures and the exact capacity requirements, they were nevertheless encouraged that the government's ongoing capacitation measures and support towards MFMA implementation would enhance their ability to comply with the Act.

³⁸ This reflects that the North West Province is largely rural, and that most of the local municipalities are low capacity, with few medium and high capacity municipalities. The medium and high capacity municipalities are mostly situated in the two biggest districts, in which most of the province's economic activity takes place.

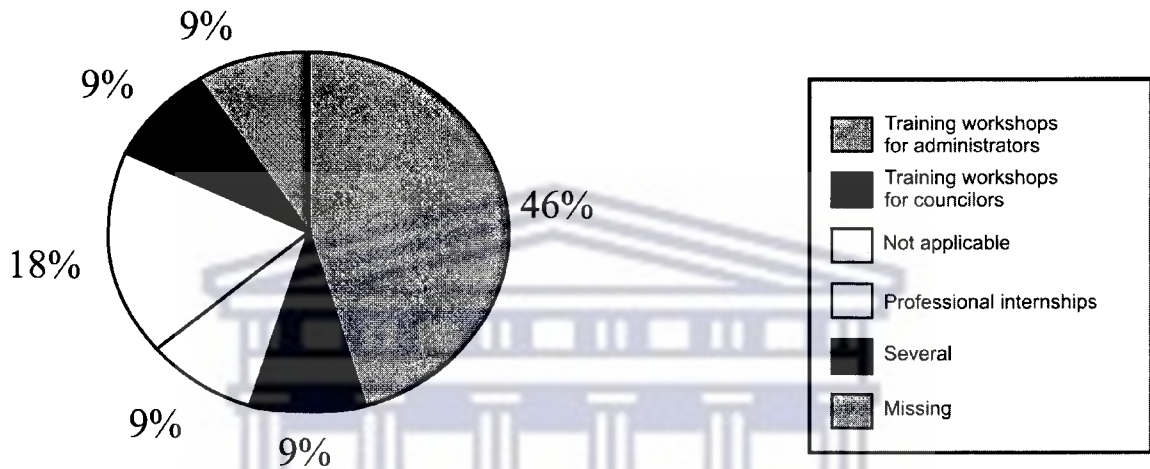
This statement from municipalities is supported by the fact that 64% of the municipalities surveyed indicated that they had received some training and capacity building from government, which they found useful in assisting them with implementing the MFMA. However, municipalities also indicated that they will need ongoing additional capacity building in order for them to implement the Act successfully in the long-term.

Training

In terms of the training received from various government organisations, municipalities indicated that they mostly received training for officials in strategic positions to implement the MFMA, as well as professional internships (Figure 1). In addition, some municipalities indicated that they had received several (more than two) types of capacity building initiatives, and therefore received more than one kind of support at the same time. In terms of training and capacity building, the Mafikeng Local Municipality received the most extensive training, as it received training in all areas, from all the listed training institutions, and was also the only municipality that received a deployed official from the Provincial Treasury to assist specifically with the MFMA for an extended period of time³⁹. The Rustenburg Local Municipality indicated that it did not receive any training, but only participated in registrations with the National Treasury and attended a few workshops, but also that the National Treasury was due to commence training in due course (the actual timeframe was not provided in this regard).

³⁹ One municipality indicated that there is too much focus on the training of councilors rather than officials, but the data indicates that this is not the same in all municipalities.

Figure 1: Type of training received

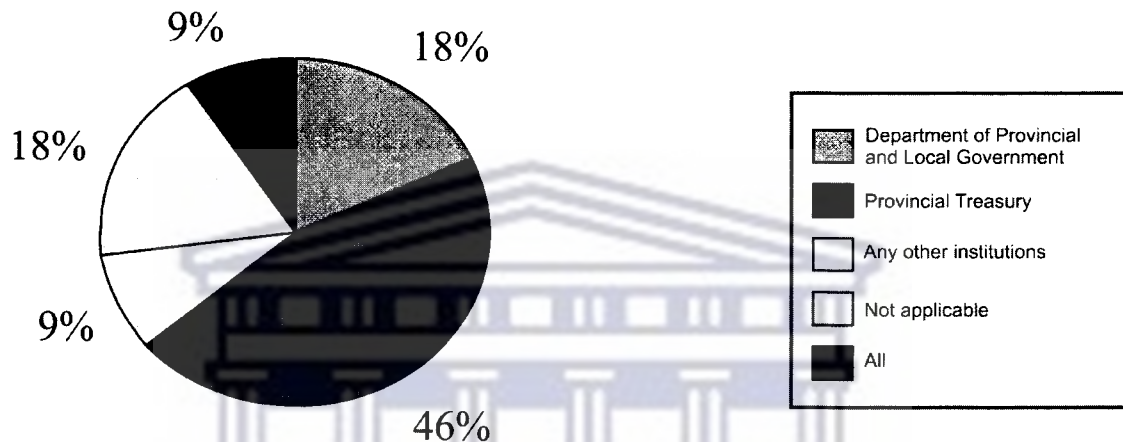


Source: Own research, September 2007

Figure 2 indicates that most of the support to municipalities comes from the Provincial Treasury. The Provincial Treasury has been delegated by the National Treasury to support municipalities, as indicated in the literature review. Other institutions that have offered training to municipalities include the National Treasury, Department of Local Government and Housing, South African Local Government Association, LGSETA, and the South African Management Development Institute (SAMDI).

Figure 2/...

Figure 2: Training organisation



Source: Own research, September 2007

In terms of content, the training provided covered most aspects of the MFMA, including IDPs and municipal budgets (37%), as well as financial and Supply Chain Management (27% each). No training was offered on cash management and accounting, Intergovernmental Fiscal Relations, management of Public-Private Partnerships, as well as Human Resources (Labour Relations and discipline issues).

Additional budget allocations for MFMA implementation

Only 18% of municipalities indicated that they had received additional budget allocations for MFMA implementation, while the remaining 82% did not receive any additional allocations. It is worth noting that MFMA capacitation is a provincial competency, and that most of the funds for this purpose are allocated to the Provincial Treasuries. The municipalities that received additional funds are the Rustenburg Local Municipality and the

Ditsobotla Local Municipality. The Rustenburg Local Municipality received an additional R250 000 of the Financial Management Grant for the recruitment of critical staff, while the Ditsobotla Municipality did not specify what the additional funds were provided for.

Additional training requirements

Table 1: Additional training requirements

		Percent	Cumulative Percent
Valid	Not applicable	9.1	9.1
	Reporting and Financial statements	9.1	18.2
	Refresher course on everything	45.5	63.6
	Supply Chain Management	9.1	72.7
	Several	27.3	100.0
	Total	100.0	

Source: Own research, September 2007

Most municipalities (46%) indicated that they needed additional training on different or all aspects of the MFMA, 9% indicated that they need training on supply chain management, and 27% provided a list of different kinds of training that they view as important. The training needs that were specified by municipalities as being especially important include general MFMA awareness training for Councilors and all relevant municipal officials; more intensive training on budgeting, financial management, municipal budget, cash management and accounting, revenue management, asset management, supply chain management, project management, legal issues regarding municipal debt and municipal borrowing, management of Public-Private partnerships, as well as Intergovernmental Fiscal Relations to all senior officials.

Municipalities also indicated that it is important to offer NQF 6 to financial management officials for all relevant staff to ensure that they meet the necessary competency levels. In addition, training should be provided for all those who need to reach the new competency

levels. It is also important to roll out MFMA training to all directorates within the municipality, as well as provide training for Section 57 employees and professional interns. More training should also be provided on Performance Management Systems and the new Personal Development Plans, as required by the National Treasury and the Department of Provincial and Local Government. Municipalities also indicated that they needed more legal training (for compliance purposes), and training on reporting requirements, and the preparation of financial statements.

Lastly, financial experts are needed to coach and mentor staff in financial departments on financial matters, and human resource experts to coach and mentor staff on performance systems. Additional training is also needed on aligning Performance Management Systems and Financial Management Systems with the MFMA.

It is clear from these results that municipal needs are diverse, and also that most municipalities have multiple training needs. In addition, municipalities indicated that all training and other capacity building efforts should be affordable to municipalities, and should be provided to both Councilors and officials.

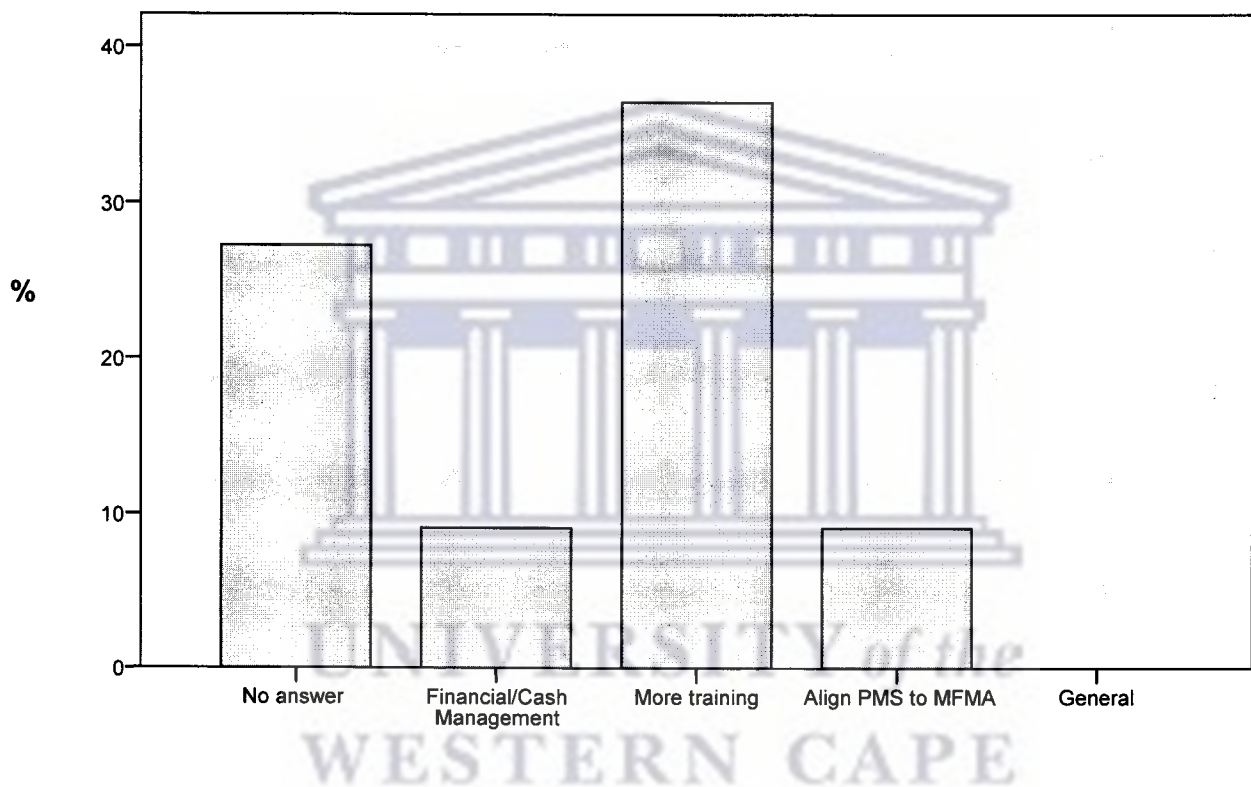
In terms of the regularity of training, most municipalities (36%) indicated that they would like to be retrained every 2 years, while 27% indicated that they need to be trained every 12 months and 18% indicated that they need to be trained every 6 to 12 months. A further 18% of municipalities indicated that they would like to be trained continuously, but did not specify time frames. The results indicate that municipalities view continuous training and re-training as important for successful implementation.

Additional assistance required by municipalities

Figure 3 indicates that most municipalities (36%) indicated that they need more training on all aspects of the MFMA on a continuous basis, particularly to keep up with the rate of turnover in municipalities. Some of the municipalities indicated that they need more

support with financial management issues, as well as aligning Performance Management Systems to the MFMA.

Figure 3: Additional assistance required



Source: Own research, September 2007

Successful implementation of the MFMA

The majority of municipalities (73%) were optimistic and indicated that the Act can be successfully implemented, while 9% indicated that it will not be successfully implemented and 18% were not sure. In addition, municipalities provided opinions on interventions that government should make in order for the MFMA to be implemented successfully, and also pointed out potential pitfalls that government should look out for in ensuring successful

implementation. Municipalities indicated that the successful implementation of the MFMA will require actions such as commitment from both Councilors and municipal officials; proper planning and time management; employment of competent personnel by municipalities; further strengthening of municipal capacity to implement the Act, and ensure that it remains intact, including Information Technology (IT) and management support; and strengthen Capacitation, monitoring and evaluation systems and processes. Furthermore, the National Treasury should continue availing its Web-based circulars, as these provide an important guide for implementation of the Act. In addition, municipalities provided the potential pitfalls illustrated in table 2 to implementation of the Act.

Table 2: Potential pitfalls

		Percent	Cumulative Percent
Valid	More training to employees/official	9.1	10.0
	Accredited Service Provider	9.1	20.0
	Clarify aspects of the Act	9.1	30.0
	Communication	18.2	50.0
	Politics and Consultation	9.1	60.0
	Other	36.4	100.0
	Total	90.9	
Missing	System	9.1	
Total		100.0	

Source: Own research, September 2007

In this regard, 18% of municipalities indicated that it is important to enhance communication between government and municipalities about the requirements of the Act and the standards expected from municipalities. Municipalities also indicated that it is important to enhance both their internal and external communication.

In addition, municipalities identified several factors that could each affect implementation equally by 9%. These include the fact that municipalities should only use accredited service providers for training on the MFMA. It is also important to clarify the Act, as compliance issues are sometimes not clear and are open to interpretation. For example, one

municipality indicated that it is not clear exactly when the oversight committee should evaluate the annual report. Municipalities also need more clarity of roles of different stakeholders in implementation of the Act, as well as clarity on the tender procedure. Other issues that could equally hamper implementation of the Act are a weak political will and political interference in administrative issues, as well as a lack of consultation. Finally, continuous training was once again highlighted as an important part of ensuring that enough capacity is built, particularly in the long-term.

Other pitfalls that were provided by municipalities for government to look out for were the fact that government should consider prioritising employment rather than deployment; government should deal with the fact that senior officials are not competent to do the job and financial management and IT systems are inconsistent. It is also important to provide ongoing assessments, as well as provide enough personnel and financial systems (software programmes). In addition, last minute changes to the format of the financial reports should stop as these create confusion; municipalities need commitment and true compliance and not token compliance. Finally a proper skills audit should be conducted in municipalities.

Municipalities strongly indicated that the MFMA will not be successfully implemented unless these problems are confronted, and also indicated that it will be a big challenge without proper personnel and training. However, municipalities also view the Act as a clearly important and necessary guiding tool.

5.3 Interviews

Interviews were conducted with several officials of provincial departments (Appendix D). The following are responses from the provincial departments.

Department of Local Government and Housing

The Department of Local Government and Housing does not deal directly with the MFMA, but only assists municipalities with general capacity building. The department referred all

queries that are related to the MFMA to the Provincial Treasury, which maintains a close relationship with municipalities and provides financial management training and support on a continuous basis.

North West Provincial Treasury

The Chief Directorate: MFMA Implementation conducts regular visits to municipalities to discuss financial management issues⁴⁰. The Provincial Treasury provided valuable documentation and information, some of which has been included in this research report. The Provincial Treasury indicated that municipalities did not start at the same place regarding the MFMA, and that some municipalities are much ahead of others. It is therefore necessary to maintain a close relationship with municipalities because they do not experience identical challenges, and therefore require different interventions.

The Provincial Treasury also indicated that the financial performance of some municipalities has worsened over the period, and this includes medium and high capacity municipalities⁴¹. The Treasury also indicated that capacity is not a very good measure of showing whether municipalities are in a position to implement the MFMA because the financial performance of some medium and high capacity municipalities has deteriorated over the period (Appendix C).

The results presented above clearly indicate that although municipalities are experiencing problems with their daily operations and compliance matters, they are nevertheless optimistic that the MFMA is critical to improving service delivery and view it as essential to the local government sphere of government.

⁴⁰ The researcher was scheduled to attend a meeting with one of the municipalities as an observer, but this was postponed to the next year (2008) due to the unavailability of the MEC for the Department of Local Government and Housing.

⁴¹ Appendix C indicates the audit status of municipalities in the North West province from 2003 to date.

CHAPTER 6. TOWARDS A FRAMEWORK TO ENSURE THE IMPLEMENTATION OF THE MFMA IN THE NORTH WEST PROVINCE – FINDINGS, RECOMMENDATIONS AND CONCLUSION

This section outlines the findings and recommendations of the paper emanating from both the qualitative and quantitative sections of the study.

6.1 Findings

The literature reviewed suggests that there is broad consensus and recognition among observers of South Africa's intergovernmental reform that the country has systematically established the key prerequisites for promoting local self-governance and decentralised service delivery. However, meeting the implementation challenge requires intensified capacity building initiatives and a stronger focus on the monitoring of intergovernmental and municipal performance. Equally important is the need to provide feedback at all spheres of government in order to promote learning by doing and to enable the three cooperative spheres to more effectively carry out their respective functions. Communication and feedback channels are particularly important because the MFMA requires more regular and accurate financial reporting to councils in order to ensure that Council detects real and potential financial problems in advance, and therefore improve the chances of early intervention and solutions to challenges.

Effective implementation of the MFMA will require more clarity of differences in the roles and responsibilities of municipal councils and municipal officials. Clarification of terms in the Act is necessary in order to avoid confusion and different interpretations of the Act, as

was highlighted in some of the questionnaires. Successful implementation of the Act will lead to better accountability, oversight and transparency. In addition, Municipalities need training in all aspects of financial management, from budgeting to reporting. Although the MFMA provides for frequent and regular reporting and early warning indicators, some of the dates and conditions are not clear to municipalities, and have to be clarified in order for the Act to be more effective.

Municipalities have identified a need to build internal capacity to deliver in all areas of their work, including in the areas of financial management, reporting, human resources management and supply chain management. Some municipalities have indicated that it is important for all directorates within the municipality to be trained on the MFMA, therefore creating awareness of the Act in all areas of the municipality, and not just the finance and human resource directorates or departments. Furthermore, although the MFMA was phased-in to allow municipalities to adjust, challenges still persist in complex areas such as Supply Chain Management. Municipalities seem to be eager to implement the MFMA, as they view it as a very important piece of legislation. In addition, the Act seems to have been a collective learning experience for government as a whole.

Specific findings in the North West Province include the fact that the North West Provincial Treasury plays an important role in the training and support of municipalities for MFMA implementation. In addition, the government seems to be serious about the internship programme, although municipalities have indicated a need for more mentors and professional finance and human resource experts. They have also indicated that it is important for these people to be employed permanently by municipalities rather than just be deployed temporarily.

The National Treasury and provincial treasuries have invested much in capacitating municipalities to implement the reforms contained in the MFMA, and have also facilitated and coordinated many capacitation programmes. However, there is still a need to continuously review the effectiveness of the capacitation programmes, as well as to ensure that there is continuous training by credible and accredited service providers. National and

provincial treasuries have developed various training guidelines, targeting specific stakeholders such as Councilors and municipal management. In addition, the National Treasury has been firm and consistent in alerting municipalities not to accept training from unaccredited institutions. This has assisted in ensuring that the quality of training remains at an acceptable standard. Furthermore, the decentralisation/delegation of certain operational, monitoring and support functions from National to Provincial Treasuries has been effective because Provincial Treasuries seem to be more accessible to municipalities than National Treasury. While the Minister of Finance is delegating responsibilities to Provincial MECs at a political level, the National Treasury is delegating some duties and responsibilities to provincial treasuries at an administrative level.

In terms of the availability of information, the National Treasury circulars have been found to be very useful and easily available from the National Treasury Website. These have made implementation of the Act easier for municipalities by providing easy accessibility to relevant information when municipalities need clarity on different aspects of the Act.

The report from the DPLG entitled: *Assessment of Provincial Narrative Reports* that was submitted to the North West Provincial Treasury indicated that the North West was lagging behind in terms of capacitating its municipalities. Amongst others, the report indicates that the North West has limited information regarding internal issues such as staffing and the level of service delivery. In addition, available information on the level of municipal transformation and organisational development indicated that only 7 out of 25 municipal managers had signed Performance Agreements and submitted them, the vacancy rate was 70%, and there were only 57 women (compared to 147 men) employed in Section 57 positions. The Report also indicated that all the IDPs in the North West still needed to be finalised, which was an issue of grave concern. Information on critical service delivery indicators such as eradication of the bucket system and the provision of water and health facilities was not availed to the Department of Provincial and Local Government. In addition, about a quarter of the municipalities do not submit financial reports on time, and only 20% get unqualified audit reports. Some municipalities have undergone tremendous financial difficulty, with their audit status worsening since 2003. This is disturbing, as this

was also the time that the MFMA was introduced, but evidence indicates that municipalities' audit reports are worsening rather than improving (Appendix C).

Municipalities are enthusiastic about the MFMA, and generally express an opinion that the Act stands a good chance of being successfully implemented, but only if the necessary measures are taken to capacitate municipalities at all levels. Municipalities are also encouraged by the various capacity building initiatives that are being undertaken by Organs of State. In particular, the Provincial Treasury, LGSETA and SALGA have taken a leading role in municipal capacitation, but other institutions such as the South African Management Development Institute (SAMDI) have also trained municipalities.

Local government capacity-building and the creation of a single integrated public service for the three spheres of government could assist towards ensuring that capacity is more evenly distributed across the spheres. Effective capacity building and training is crucial to the successful implementation of the new systems in local government and to significant advances in delivery, development and democracy. In addition, the issue of local government finance must be linked to the complex issue of distribution of powers and functions between district and local municipalities, which is crucial to the success of South Africa's local government system. South Africa needs powerful district municipalities to ensure delivery, development and democracy in rural areas. It is cause for concern that district municipalities that are weak in financial management, such as Ngaka Modiri Molema District Municipality in the Central District of the province (Appendix C, pg 9) cannot support their local municipalities because they are still relatively weak in themselves.

Lastly, the international case study on the Armenian local government system indicates that local government capacity is one of the weaknesses of the local self-government system in Armenia. There is no clearly defined strategy from central government in this regard. Legislation does not provide all conditions for capacity building and strengthening. Furthermore, although many international and donor organisations have organised and implemented different capacity building projects and programmes, including training projects in that country, but this has not been enough to achieve sustainable development.

The only solution for these problems is to establish and develop a comprehensive capacity building process. The strategic goals and objectives of community development, including capacity building must be at the center of central and local government attention and implemented in close cooperation with other sectors of society.

South Africa has a more advanced local government capacity building legal environment than Armenia because South Africa has more supporting legislation and regulation. The Armenian government is aware of the need to strengthen and improve its local government supporting legislation and structures.

6.2 Recommendations

South Africa generally has a good financial management framework, but there are challenges in implementation at all levels of government, and not just at local government level. The successful implementation of the new local government system will require a huge investment in the capacity building initiatives of councilors, officials and the community. In reaching this goal, national and provincial government departments, SALGA, municipalities, the local government SETA (LGSETA), NGOs, educational institutions and other organisations need to contribute to local government capacity building. To be effective, they need to organise their programmes for greater impact, and to add more political content to this capacity building, as well as link it more accurately to the national democratic transition. Furthermore, municipal councils should strengthen their oversight roles over management and municipal officials. Political will is important in achieving the goals of the municipality.

The National Treasury needs to strengthen its monitoring mechanisms in terms of the MFMA, particularly regarding the review of previous capacitation workshops and documentation. Continuous monitoring and review of all capacity building initiatives is critical, as well as the assessment of the impact of policies and programmes. The Treasury also needs to conduct comprehensive skills audits in all municipalities, as well as find solutions to problems of staff turnover. Furthermore, government departments and

organisations should continue to work together to capacitate and support municipalities. This support should be targeted according to the specific needs of a particular municipality. In addition, the Provincial Treasury needs to conduct a comprehensive impact-assessment study on categories of municipalities to ascertain present differences in challenges, as well as success rates between low, medium and high capacity municipalities. This will ensure that targeted support and intervention is provided to municipalities. There is also a clear need for more systemic capacity building relationships to develop. The Constitutional obligation on national and provincial governments to support local government does not lie solely in the Department of Provincial and Local Government. All line departments share the responsibility. The system of cooperative governance requires supportive relationships between sector departments and local government in order to build strong and fully capacitated municipalities. It is significant that capacity building interventions should create an efficient market for demanding and supplying capacity support.

Finally, the National Treasury must continue to monitor the quality of training offered to municipalities, as well as ensure that this training is relevant to the needs of municipalities, and is updated to meet new challenges as implementation continues. Municipalities should, in turn, ensure that they only use accredited service providers for their training.

6.3 Conclusion

A key indicator of local government autonomy is the ability of a local authority to control its own finances. In this regard, there is a definite need for clear municipal finance legislation to ensure the effective performance of Local Government in the delivery of basic municipal services to all communities. Post-apartheid South Africa has made great strides in terms of establishing financial autonomy within all levels of government. The National Treasury has led comprehensive programmes for municipalities in order to support them in their new financial autonomy. In addition, other organisations such as the Financial and Fiscal Commission have also dedicated many resources into municipal research and support.

Municipalities can only implement the MFMA successfully with continuous support. There is also a need to create effective communication channels between government departments and organisations in order to avoid duplication, facilitate maximum sharing of information, and provide a platform for consistent follow-ups, if necessary. Where municipalities have had implementation problems, national and provincial treasuries need to intervene timeously.

As had been envisaged in the White Paper on Local Government, the restructuring of local government in South Africa caused the newly formed municipalities following the municipal demarcation process to experience a variety of financial challenges, including dramatically increased service responsibilities, increased administrative costs, upward pressure on salaries, cuts in operating subsidies, as well as reductions in experienced personnel, especially in the financial sector. These are complex issues that need more long-term solutions in order to restore financial discipline, eliminate outstanding debts and generate the necessary cash flows.

Capacity building should be seen as a means to an end, and it is meant to enable municipalities to perform the functions assigned to them. The outcome of capacity building therefore is the improvement in the performance of the municipality. A capacity building programme in this instance should be developed within the context of the performance desired. Each phase of a capacity building framework can be matched to specific outcomes.

The DPLG and SALGA have conducted an audit of municipal capacity and developed training programmes for Councilors. The department has also developed the division of fiscal powers and launched the Local Government Leadership Academy. However, there needs to be greater co-ordination between the various service providers who offer capacity-building programmes. The Department of Provincial and Local Government (DPLG) has also introduced a web-based system for monitoring municipal finance in order to support the local government legal financial framework.

The challenges of the new system of local government are not around conceptual and policy issues, but implementation issues. In other words, it is about plans, strategies, programmes, funding and other resources, quality of leadership, capacity building and training, and the practical co-operation of the three spheres of government. Municipalities need to make more effective and productive use of limited resources, to build financially and economically sustainable municipalities, build institutional and administrative systems, and deepen governance practices in local government.

In conclusion, municipalities see a definite need for the MFMA and seem enthusiastic about implementing it. However, they also point out strongly that there needs to be enough support and capacity building, and that this has to be done on a continuous basis. Therefore, as it is, there is a willingness to implement and comply with the new financial regulations, but municipalities are also aware of their limitations and indicate that the national and provincial government must provide them with the needed support. In addition, the needs of municipalities tend to be diverse, and all areas are crucial to good financial management. Only in dealing with these existing and potential challenges in a systematic way will the Act be effectively implemented.

UNIVERSITY *of the*
WESTERN CAPE

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APPENDIX A: QUESTIONNAIRE

The purpose of the following questionnaire is to ascertain the readiness of Municipalities in implementing the Municipal Finance Management Act, as well as the extent to which municipalities find the assistance granted by national government useful in guiding successful implementation. The questionnaire is meant to be distributed to all municipalities in the north West Province (25 municipalities in total).

1. Name of Municipality:

.....

.....

2. Category of Municipality"

2a. District Municipality

2b. Local Municipality

.....

.....

3. Classification of Municipality", as per MFMA classification

3a. Low capacity

3b. Medium capacity

3c. High capacity

.....

.....

.....

4. Do you feel that your Municipality has enough capacity to implement the MFMA?

4a. Yes

4b. No

4c. Not sure

5. Did your Municipality receive any capacity building towards implementing the MFMA in the last 12 months?

5a. Yes

5a. No

If yes, what kind of training did you receive?

5a1. Training workshops for administrators

5a2. Training workshops for Councillors

5a3. Professional Internships

5a4. Deployed equipment from national or provincial departments

From which Organisation or Department did your municipality receive the training?

5b1. National Treasury



- 5b2. Department of provincial and local government
- 5b3. Provincial Treasury
- 5b4. Department of Local Government and Housing
- 5b5. South African Local Government Association
- 5b6. North West University
- 5b7. Any other institutions (please specify)

6. In terms of training and workshops, which areas were covered?

- 6a. IDP's and Municipal Budgets
- 6b. Cash Management and Accounting
- 6c. Asset management
- 6d. Intergovernmental Fiscal Relations
- 6e. Legal issues regarding municipal debt and municipal borrowing
- 6f. Financial Management
- 6g. Management of Public-Private-Partnerships
- 6h. Labour Relations and Discipline issues

7. Did the municipality receive any additional budget allocations for MFMA implementation?

- 7a. Yes
- 7b. No

If yes, what were the additional funds for?

7a1. Buildings/Physical Infrastructure

7a2. Office equipment (Please specify)

7a3. Recruitment of critical staff

7a4. Other (Specify)

.....

.....

.....

.....

.....

.....

8. In your opinion, what more training does the municipality require in order to implement the MFMA successfully?

9. How often should this knowledge be reviewed?

10. In addition to the assistance that has already been offered, what additional assistance does the municipality need?

11. Given the current challenges and government efforts, do you think the MFMA will be successfully implemented, especially in district and local municipalities? Please provide reasons for your answer.

12. What are the potential pitfalls that the government should look out for in guiding implementation?

.....

.....

.....

.....

.....

.....

*Thank you for your cooperation in filling out this questionnaire. Your kind efforts are much appreciated.
Bridgette Diuthwileng University of the Western Cape School of Government.*

APPENDIX B: MUNICIPALITIES INCLUDED IN THE ANALYSIS

Municipality	Category	District
1. Bojanala District Municipality	High Capacity	Bojanala District
2. Naledi Local Municipality	Low Capacity	Bophirima District
3. Greater Taung Local Municipality	Low Capacity	Bophirima District
4. Mafikeng Local Municipality	Medium Capacity	Central District
5. Ditsobotla Local Municipality	Low Capacity	Central District
6. Tswaing Local Municipality	Low Capacity	Central District
7. Ramotshere-Moiloa Local Municipality	Low Capacity	Central District
8. Ratlou Municipality	Low Capacity	Central District
9. Merafong Municipality	High Capacity	Southern District
10. Ventersdorp Municipality	Medium Capacity	Southern District

APPENDIX C: FINANCIAL AUDIT REPORT OF MUNICIPALITIES**STATUS REPORT ON MUNICIPAL AUDITS : 2003, 2004, 2005, 2006 AND 2007**

NAME OF MUNICIPALITY	FINANCIAL YEAR	FINANCIAL STATEMENTS		AUDIT REPORT DATE	AUDIT OPINION	COUNCIL MEETING	AG ATTENDANCE	ANNUAL REPORT RECEIVED
		RECEIVED	RESUBMISSION					
Bojanala District Municipality (H)	2003	21/11/2003	N/A	16/02/2004	Unqualified	Not known	No invitation	No
	2004	20/10/2004	N/A	17/01/2005	Unqualified	24/02/2005	No invitation	No
	2005	31/08/2005	N/A	31/11/2005	Unqualified	23/02/2006	Yes	No
	2006	31/08/2006	N/A	31/11/2006	Unqualified	29/03/2007	No	No
	2007	31/08/2007	N/A					
Rustenburg Municipality (H)	2003	27/01/2004	15/02/2005	15/04/2005	Qualified	26/06/2005	No invitation	No
	2004	28/09/2004	29/07/2005	28/10/2005	Disclaimer	28/03/2006	No (1 day notice)	No
	2005	31/08/2005	N/A	30/11/2005	Qualified	28/03/2006	No (1 day notice)	Yes, but incorrect
	2006	31/08/2006	N/A	30/11/2006	Disclaimer	27/02/2007	Yes	Yes
	2007	31/08/2007	N/A					

NAME OF MUNICIPALITY	FINANCIAL YEAR	FINANCIAL STATEMENTS		AUDIT REPORT DATE	AUDIT OPINION	COUNCIL MEETING	AG ATTENDANCE	ANNUAL REPORT RECEIVED
		RECEIVED	RESUBMISSION					
Madibeng Municipality (H)	2003	3/12/2003	N/A	10/12/2004	Qualified	26/06/2005	No invitation	No
	2004	11/02/2005	18/02/2005	25/08/2005	Disclaimer	Unsure	No invitation	No
	2005	28/08/2006	N/A	31/11/2006	Disclaimer	Unsure	No invitation	No
	2006	28/02/2007	N/A	30/05/2007	Adverse	05/03/2007	No	No
	2007	31/08/2007	N/A					
Kgetlengrivier Municipality (L)	2003	19/11/2004	30/06/2005	21/10/2005	Disclaimer	08/02/2006	No invitation	No
	2004	09/02/2005	30/06/2005	21/10/2005	Disclaimer	08/02/2006	No invitation	No
	2005	31/08/2005	N/A	31/11/2005	Disclaimer	08/02/2006	No invitation	No
	2006	09/09/2006	N/A	31/11/2006	Disclaimer	Unsure	No invitation	No
	2007	31/08/2007	N/A					
Moretele Municipality (L)	2003	28/11/2003	N/A	27/02/2004	Unqualified	Unsure	No invitation	No
	2004	27/10/2004	N/A	04/05/2005	Qualified	Unsure	No invitation	No
	2005	15/09/2005	N/A	12/12/2005	Disclaimer	Unsure	No invitation	No
	2006	04/09/2006	N/A	08/12/2006	Adverse	31/01/2007	No invitation	No
	2007	31/08/2007	N/A					

NAME OF MUNICIPALITY	FINANCIAL YEAR	FINANCIAL STATEMENTS		AUDIT REPORT DATE	AUDIT OPINION	COUNCIL MEETING	AG ATTENDANCE	ANNUAL REPORT RECEIVED
		RECEIVED	RESUBMISSION					
Moses Kotane Municipality (M)	2003	01/10/2003	N/A	22/12/2003	Unqualified	30/06/2004	No invitation	No
	2004	15/11/2004	N/A	23/02/2005	Unqualified	31/05/2005	No invitation	No
	2005	31/08/2005	N/A	31/11/2005	Qualified	31/01/2006	Yes	Yes
	2006	01/09/2006	N/A	31/11/2006	Unqualified	31/01/2007	Yes	Yes
	2007	31/08/2007	N/A					
Bophirima District Municipality (M)	2003	30/09/2003	N/A	22/12/2003	Unqualified	25/02/2005	No invitation	No
	2004	30/09/2004	N/A	23/02/2005	Unqualified	25/02/2005	No invitation	No
	2005	31/08/2005	N/A	31/11/2005	Unqualified	23/02/2006	Yes	Yes
	2006	31/08/2006	N/A	31/11/2006	Unqualified	Unsure	No invitation	No
	2007	07/09/2007	N/A					
Naledi Municipality (L)	2003	10/10/2003	N/A	30/11/2004	Disclaimer	Unsure	No invitation	No
	2004	07/01/2005	N/A	01/11/2005	Disclaimer	Unsure	No invitation	No
	2005	31/08/2005	N/A	30/11/2005	Disclaimer	Unsure	No invitation	No
	2006	31/08/2006	N/A	30/11/2006	Disclaimer	Unsure	No invitation	No
	2007	31/08/2007	N/A					

NAME OF MUNICIPALITY	FINANCIAL YEAR	FINANCIAL STATEMENTS		AUDIT REPORT DATE	AUDIT OPINION	COUNCIL MEETING	AG ATTENDANCE	ANNUAL REPORT RECEIVED
		RECEIVED	RESUBMISSION					
Greater Taung Municipality (M)	2003	10/10/2003	30/04/2004	30/09/2004	Qualified	Unsure	No invitation	No
	2004	30/10/2004	N/A	31/08/2005	Qualified	Unsure	No invitation	No
	2005	16/09/2005	N/A	15/12/2005	Disclaimer	Unsure	No invitation	No
	2006	04/12/2006	N/A	22/03/2007	Disclaimer	Unsure	No invitation	No
	2007	31/08/2007	N/A					
Mamusa Municipality (M)	2003	30/09/2003	N/A	22/12/2003	Qualified	22/02/2005	No invitation	No
	2004	15/12/2004	15/04/2005	31/08/2005	Qualified	Unsure	No invitation	No
	2005	31/08/2005	N/A	04/07/2006	Disclaimer	Unsure	No invitation	No
	2006	31/08/2006	N/A	30/11/2006	Disclaimer	Unsure	No invitation	No
	2007							
Molopo Municipality (M)	2003	30/09/2003	N/A	22/12/2003	Unqualified	18/05/2006	No invitation	No
	2004	30/09/2004	15/12/2004	31/08/2005	Unqualified	18/05/2006	No invitation	No
	2005	31/08/2005	N/A	31/11/2005	Unqualified	18/05/2006	No invitation	No
	2006	31/08/2006	N/A	30/11/2006	Unqualified	Not yet tabled	No invitation	No
	2007	10/10/2007	N/A					

NAME OF MUNICIPALITY	FINANCIAL YEAR	FINANCIAL STATEMENTS		AUDIT REPORT DATE	AUDIT OPINION	COUNCIL MEETING	AG ATTENDANCE	ANNUAL REPORT RECEIVED
		RECEIVED	RESUBMISSION					
Kagisano Municipality (M)	2003	30/09/2003	N/A	22/12/2003	Unqualified	Unsure	No invitation	No
	2004	30/09/2004	04/11/2005	15/12/2005	Unqualified	Unsure	No invitation	No
	2005	15/12/2005	N/A	03/11/2006	Qualified	27/02/2006	No invitation	No
	2006	28/11/2006	N/A	14/03/2007	Disclaimer	19/09/2007	Yes	Yes
	2007	WITHDRAWN						
Lekwa-Teemane Municipality (L)	2003	19/11/2003	30/01/2004	30/04/2004	Disclaimer	Unsure	No invitation	No
	2004	30/09/2003	06/06/2005	15/11/2005	Qualified	Unsure	No invitation	No
	2005	31/08/2005	N/A	30/11/2005	Disclaimer	Unsure	No invitation	No
	2006	31/08/2006	N/A	31/11/2006	Disclaimer	Unsure	No invitation	No
	2007	31/08/2007	N/A					
Ngaka Modiri Molema district Municipality (L)	2003	30/09/2003	15/02/2004	28/02/2004	Qualified	Unsure	Yes	No
	2004	09/02/2005	21/09/2005	28/11/2005	Disclaimer	Unsure	Yes	No
	2005	30/08/2005	N/A	30/11/2005	Disclaimer	02/05/2006	Yes	No
	2006	31/08/2006	N/A	08/12/2006	Adverse	03/04/2007	Yes	Yes
	2007	31/08/2007	N/A					

NAME OF MUNICIPALITY	FINANCIAL YEAR	FINANCIAL STATEMENTS		AUDIT REPORT DATE	AUDIT OPINION	COUNCIL MEETING	AG ATTENDANCE	ANNUAL REPORT RECEIVED
		RECEIVED	RESUBMISSION					
Mafikeng Municipality (L)	2003	26/02/2004	05/09/2004	05/11/2004	Disclaimer	Unsure	No invitation	No
	2004	24/12/2004	21/09/2005	16/01/2006	Disclaimer	Unsure	No invitation	No
	2005	25/11/2005	N/A	12/09/2006	Disclaimer	Unsure	No invitation	No
	2006	31/08/2006	N/A	31/11/2006	Disclaimer	Unsure	No invitation	No
	2007	31/08/2007	N/A					
Ditsobotla Municipality (L)	2003	07/12/2004	11/05/2005	13/06/2005	Disclaimer	06/08/2005	No	No
	2004	02/09/2005	N/A	31/11/2005	Disclaimer	14/02/2006	Yes	No
	2005	31/08/2005	N/A	31/11/2005	Disclaimer	14/02/2006	Yes	Yes
	2006	15/09/2006	N/A	08/12/2006	Adverse	18/05/2007	Yes	Yes
	2007	31/08/2007	N/A					
Tswaing Municipality (L)	2003	30/09/2003	N/A	22/12/2004	Unqualified	Unsure	No	No
	2004	30/10/2004	06/06/2005	31/08/2005	Disclaimer	Unsure	No	No
	2005	15/03/2006	N/A	26/09/2006	Disclaimer	08/02/2007	Yes	Yes
	2006	19/10/2006	N/A	10/08/2007	Disclaimer	Unsure	No invitation	No
	2007	31/08/2007	N/A					

NAME OF MUNICIPALITY	FINANCIAL YEAR	FINANCIAL STATEMENTS		AUDIT REPORT DATE	AUDIT OPINION	COUNCIL MEETING	AG ATTENDANCE	ANNUAL REPORT RECEIVED
		RECEIVED	RESUBMISSION					
Ramotshere Moiloa Municipality (L)	2003	17/12/2003	26/07/2004	22/08/2004	Qualified	01/03/2006	No	No
	2004	20/10/2005	20/03/2005	31/08/2005	Qualified	01/03/2006	No	No
	2005	31/08/2005	09/01/2006	07/04/2006	Disclaimer	05/06/2006	Yes	Yes
	2006	15/09/2006	N/A	15/12/2006	Disclaimer	19/03/2007	No invitation	No
	2007	31/08/2007	N/A					
Ratlou Municipality (L)	2003	30/09/2003	03/11/2005	12/12/2005	Unqualified	01/03/2006	Yes	No
	2004	03/02/2005	03/11/2005	14/12/2005	Qualified	01/03/2006	Yes	No
	2005	31/08/2005	24/11/2005	28/02/2006	Disclaimer	01/03/2006	Yes	No
	2006	31/08/2006	N/A	30/11/2006	Disclaimer	08/03/2007	Yes	Yes
	2007	31/08/2007	N/A					
Southern District Municipality (M)	2003	22/10/2003	21/01/2004	21/04/2004	Disclaimer	19/05/2005	No invitation	No
	2004	15/10/2004	14/06/2005	31/10/2005	Disclaimer	Tabled	No invitation	No
	2005	31/08/2005	N/A	31/11/2005	Disclaimer	Tabled	No invitation	No
	2006	31/08/2006	N/A	31/11/2006	Disclaimer	Tabled	No invitation	No
	2007	31/08/2007	N/A					

NAME OF MUNICIPALITY	FINANCIAL YEAR	FINANCIAL STATEMENTS		AUDIT REPORT DATE	AUDIT OPINION	COUNCIL MEETING	AG ATTENDANCE	ANNUAL REPORT RECEIVED
		RECEIVED	RESUBMISSION					
Tlokwe Municipality	2003	15/09/2003	N/A	25/11/2003	Unqualified	02/09/2004	Yes	Yes
	2004	15/10/2004	11/05/2005	31/10/2005	Qualified	31/05/2006	Yes	Yes
	2005	31/08/2005	N/A	31/11/2005	Disclaimer	29/03/2007	Yes	Yes
	2006	31/08/2006	N/A	12/02/2007	Adverse	Tabled	No invitation	Yes
	2007	31/08/2007	N/A					
City of Matielosana (H)	2003	03/12/2003	19/02/2004	19/05/2004	Disclaimer	10/05/2004	Yes	No
	2004	30/09/2004	10/03/2005	12/10/2005	Disclaimer	22/05/2006	Yes	Yes
	2005	30/08/2005	N/A	30/11/2005	Disclaimer	22/05/2006	Yes	Yes
	2006	31/08/2006	N/A	30/11/2006	Disclaimer	10/04/2007	Yes	Yes
	2007	31/08/2007	N/A					
Merafong Municipality (H)	N/A					20/03/2007	Yes	Yes
	2006	31/08/2006	N/A	30/11/2006	Qualified	Not yet tabled		No
	2007	31/08/2007	N/A					

NAME OF MUNICIPALITY	FINANCIAL YEAR	FINANCIAL STATEMENTS		AUDIT REPORT DATE	AUDIT OPINION	COUNCIL MEETING	AG ATTENDANCE	ANNUAL REPORT RECEIVED
		RECEIVED	RESUBMISSION					
Maquassi Hills Municipality (M)	2003	10/10/2003	30/01/2004	30/04/2004	Adverse	21/09/2004	Yes	No
	2004	13/10/2004	25/04/2005	31/10/2005	Disclaimer	21/11/2006	Yes	Yes
	2005	31/08/2005	N/A	30/11/2005	Disclaimer	21/11/2006	Yes	Yes
	2006	31/08/2006	N/A	30/11/2006	Adverse	Tabled	Invitation	No
	2007	05/11/2007	N/A					
Ventersdorp Municipality (M)	2003	10/10/2003	N/A	10/01/2004	Disclaimer	31/08/2004	Yes	No
	2004	05/07/2005	20/08/2006	20/08/2006	Disclaimer	Not yet tabled		No
	2005	04/07/2006	N/A	Busy with report				
	2006	26/02/2007	N/A	Busy with report				
	2007	18/09/2007	N/A					
Moshaweng Municipality (L)	2003	13/10/2003	N/A	22/12/2003	Qualified	Not yet tabled		No
	2004	08/09/2005	04/07/2006	23/03/2007	Disclaimer	Not yet tabled		No
	2005	08/09/2005	04/07/2006	23/03/2007	Disclaimer	Not yet tabled		No
	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

APPENDIX D: INTERVIEWS

The following people were contacted for telephonic and face-to-face interviews:

- ***Department of Local Government and Housing:***

1. *Mr. Jerry Rieckert – Director: Municipal Support*
Contact No: (018) 387 3530
2. *Mrs. Botlahale Mofokeng - Director: Monitoring and Support*
Contact No.: (018) 387 3547 and 083 410 4604

- ***Provincial Treasury***

1. *Mr. Seymour Williams – Chief Director: MFMA Implementation*
Contact No.: (018) 387 4383 and 082 447 4616

- ***National Treasury (Deployed official to Provincial Treasury)***

1. *Mr. Kulu Nair*
Contact No.: 082 920 8232