

Issues relating to municipal finance and municipal fiscal management

18.1 Introduction

The overall reform and transformation of the new local government dispensation has not only affected the composition and internal functioning of all local governments in South Africa, it has also significantly impacted on municipal financial affairs. It is clear that municipalities need adequate financial resources to achieve their new constitutional objectives. From the outset it is important to note not only that municipal income sources should be protected, but also sound expenditure policies and financial control mechanisms must be implemented.¹ In light of the new constitutional dispensation, all governmental expenditure and financial management practices must adhere to the basic values of accountability and transparency.² Strict control over municipal financial matters is thus a *sine quo non* for a successful and effective local government sphere.

Against this background, a new legal framework has been developed to manage and control the financial affairs of all municipalities. At the centre of the new framework is the Constitution, which specifically requires that all local governments must be developmentally orientated and that they aim at meeting the basic needs of their respective communities in their budgeting and administrations.³ Furthermore, municipalities must also strive to achieve various constitutional objectives, which spe-

¹ No local government will be able to fulfil its overall constitutional objectives and duties without effective and strict monetary control. See also Cloete (1997) 108.

² These values are the basic foundations upon which the new governmental structure, including the new local government dispensation, is based. Refer also to the Constitution s 1.

³ See the Constitution ss 152 and 153 respectively.

cifically include the provision of basic services to local residents in a sustainable manner.⁴

In order for the new framework of municipal finance to be effective, the White Paper on local government has identified three aspects which the new financial framework had to incorporate:

- The new system had to be developmentally orientated and had to address the root causes of current financial problems.
- A balance had to be achieved between programmes for poverty eradication combined with strategies of growth and job creation.
- All local governments had to be empowered to fulfil their overall constitutional mandates.⁵

It is further imperative that the new framework recognises and accommodates the difference between the three categories of municipality. In this respect it is important to take cognisance of the fact that urban and rural municipalities have very different financial circumstances and capacities.⁶ In light of the abovementioned factors, the Department of Constitutional Development and Local Government has embarked on a programme to establish and enact various legislative provisions in order to establish a broad financial framework for local governments. Although it is hoped that the new legal framework will be effective in order to secure the responsibilities that local governments must meet, the department has encountered many delays in finalising the proposed legal framework.⁷

18.2 The new legislative framework for municipal financial management

Within the new constitutional dispensation of South Africa, all local governments are specifically entrenched as being part of the government of the Republic, and their existence and functioning are thus constitutionally controlled and regulated. This is also the position regarding the principles of municipal finance. The Constitution pro-

⁴ In this regard it is submitted that sustainable services refer to services that can be continued on a day-to-day basis. Apart from sustainability, services should also be affordable to all members of local communities which in turn often require some form of local cross-subsidisation within a matrix of affordability, efficiency and constitutional effectiveness. See Craythorne (1997) 342.

⁵ See the White Paper on Local Government (1998) at 129.

⁶ See the three categories of municipality set out in the Constitution s 155. Against the backdrop of a combination of various factors, such as the system of segregation, poor administration and inadequate control measures, many local governments, especially in rural areas, do not have adequate tax bases to fund and sustain basic service delivery.

⁷ It took nearly five years to finalise the new Local Government: Municipal Property Rates Act, and the Local Government: Municipal Finance Management Act.

vides the basic foundation and directives which have to be observed and complied with by all spheres of government, including municipalities. In relation to municipal finance, the Constitution incorporates various directives, and accordingly the new restructured system of municipal finance needs to be founded on the supreme constitutional foundation. Apart from such constitutional provisions, both national and provincial legislatures are authorised to enact further legal rules in order to complete the new envisaged system. Each of the new legislative sources is discussed below.

18.2.1 The broad constitutional foundation relevant to municipal finance

According to the Constitution, all municipalities are obligated to structure and manage their administrations, budgeting and planning processes in such a way as to give priority to the basic needs of their respective communities and also to promote the social and economic development of such communities. In order to achieve these constitutional duties, all municipalities are obligated to participating in national and provincial development programmes.⁸ A further important constitutional requirement that impacts on municipal financial affairs is the fact that neither national government nor provincial governments may compromise or impede a municipality's ability or right to exercise its powers or perform its functions. Both higher spheres of government must support and strengthen the capacity of municipalities to manage their own affairs and to exercise and perform their powers and functions.⁹ It is clear from the constitutional text that the two higher spheres of government have a significant responsibility to ensure that municipalities are capacitated and able to perform their powers and functions. Apart from the provisions mentioned above, the chapter on local government in the Constitution contains no requirements regarding the system of municipal finance. However, the broad requirements relating to municipal finance are set out in chapter 13 of the Constitution, which deals with the financial affairs of all three spheres of government. In this regard, the Constitution deals with the following:

- *National revenue fund* The Constitution determines that a national revenue fund be established and that all money which is received by the national government

⁸ Refer to the Constitution s 153. This section must be read together with s 152, which confirms the various objects that municipalities must strive to achieve, depending on their financial and administrative capacities.

⁹ See the Constitution s 151(4) read with s 154(1).

be paid into such national revenue fund. Only money that is reasonably excluded by an Act of parliament may be deposited in another fund(s).¹⁰

- *Equitable shares and allocations of revenue* According to the Constitution, an Act of parliament must provide for *inter alia*, the equitable division of revenue that has been raised nationally among the national, provincial and local spheres of government and also for any other allocations of revenue to provinces. The Act must also provide for any other allocations to the provinces or *local government or municipalities* from the national government's share of that revenue and any conditions on which those allocations may be made.¹¹ The Act of parliament that regulates the equitable share and allocation of revenue raised nationally may be enacted only be after the provincial governments, Organised Local Government (OLG) and the Financial and Fiscal Commission (FFC) have been consulted, and after any recommendations of the commission have been considered. Furthermore, the Act must take various factors into account, such as *inter alia*:
 - (a) the need to ensure that the provinces and municipalities are able to provide basic services and perform the functions allocated to them
 - (b) the fiscal capacity and efficiency of the provinces and municipalities
 - (c) the developmental and other needs of provinces and municipalities
 - (d) the various obligations of the provinces and municipalities that have been allocated to them in terms of national legislation.¹²

In essence, the Constitution addresses intergovernmental fiscal relations in two broad respects. On one hand the Constitution entitles the local sphere of government to an equitable share of revenue raised nationally. Such sharing of national revenue is generally referred to as "intergovernmental transfers" (IGTs). Apart from the entitlement to share in revenue, the Constitution specifically entrenches oversight and regulation of the financial affairs of municipalities in the national government.¹³

¹⁰ See the Constitution s 213(1)-(3).

¹¹ Refer to the Constitution s 214(1)(a)-(b). In compliance with s 214(1)(a) national parliament has enacted the Division of Revenue Act 7 of 2003. The Act specifically provides for the equitable division of revenue between the three spheres of government.

¹² For more details see the Constitution s 214(2)(a)-(j). The use of the terms "local governments" and "municipalities" in s 214 is somewhat unclear and unnecessary, as both terms are synonymous with one another.

¹³ This oversight and control is protected in various sections of the Constitution. For more details, refer to the Constitution ss 100, 139, 155(7), 229 and 230A. Many other sections regarding

- *National, provincial and municipal budgets* The new constitutional dispensation envisages an overall financial system for all spheres of government that is transparent, effective and accountable and regards it as obligatory. All national, provincial and municipal budgets and budgetary processes must promote transparency, accountability and the effective financial management of the economy, debt and the public sector.¹⁴ Again, the Constitution itself requires national legislation to further complete and regulate such financial processes. The national legislation must prescribe the form of the budgets in all three spheres of government, and all budgets must show the sources of revenue and the way in which proposed expenditure will comply with national legislative requirements.¹⁵ The Constitution further determines that each budget in each sphere of government, including all municipal budgets, must contain specific information. For example, each budget must contain estimates of revenue and expenditure, proposals for financing any anticipated deficit and an indication of intentions regarding borrowing and also other forms of public liability that will increase public debt.¹⁶
- *Treasury control and procurement* The Constitution also requires national legislation to establish a national treasury and to prescribe measures to ensure both transparency and expenditure control in each sphere of government. Such measures are to be achieved by introducing generally recognised accounting practices, by uniform expenditure classifications and through uniform treasury norms and standards. It is the responsibility of the national treasury to enforce compliance with the measures that have been mentioned above. If an organ of state commits a serious or persistent material breach of the mentioned measures, then the national treasury may stop the transfer of funds to that organ or organs.¹⁷ It is evident that the Constitution, as with other issues, vests the final oversight and control with the national sphere of government, within which sphere the national treasury operates. This is also the case concerning municipal treasury control.

finance such as ss 215 and 216 grant further powers to the national treasury to regulate municipal financial affairs. The Act will therefore set financial controls for all spheres of government and will impose responsibilities and penalties on not only accounting officers, but also on the municipal manager and political heads. Refer also to the White Paper on Local Government (1998) at 130-131.

¹⁴ See the Constitution s 215(1).

¹⁵ Refer to the Constitution s 215(2)(a)-(c).

¹⁶ See the Constitution s 215(3)(a)-(c).

¹⁷ See the Constitution s 216(1) and (2).

Requirements regarding aspects of procurement These are also constitutionally entrenched. When an organ of state in any sphere or any other institution so identified in national legislation contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and also cost effective. Procurement procedures or policies may further provide for categories of preference in the allocation of contracts and also for the protection or advancement of persons or categories of persons that have been disadvantaged by unfair discrimination.¹⁸ National legislation must again prescribe a framework within which the procurement policy is to be implemented.¹⁹

In accordance with the abovementioned constitutional imperative set out in section 217 of the Constitution, national parliament has enacted the Preferential Procurement Policy Framework Act (PPPFA).²⁰ The main aim of the Act is to give effect to section 217(3) of the Constitution by providing a framework for the implementation of the procurement policy contemplated in section 217(2). The PPPFA determines that organs of state, including municipalities, must determine their preferential procurement policies and also implement them within the following framework:²¹

- (a) A preference points system must be followed.
- (b) For contracts with a rand value above a prescribed amount, a maximum of 10 points may be allocated for specific goals as contemplated in paragraph (d), provided that the lowest acceptable tender scores 90 points for price. For contracts with a rand value equal to or below a prescribed amount, a maximum of 20 points may be allocated for specific goals, provided that the lowest acceptable tender scores 80 points for price.²²

¹⁸ This preferential treatment is a good example of so-called "affirmative action" initiatives. It is submitted that although such initiatives are constitutionally permitted, the relevant institutions do not have a carte blanche freedom over the contract requirements with outside institutions. Such appointments or awarding of contracts must also comply with other constitutional requirements. See, eg, the provisions of s 9 (equality) and s 33 (fair administration action) set out in the Bill of Rights.

¹⁹ See the Constitution s 217(1)-(3).

²⁰ 5 of 2000.

²¹ See the PPPFA s 2(1)(a)-(g).

²² "Prescribed" in this sense means prescribed by regulation by the Minister of Finance. See the PPPFA ss 1 and 5 respectively. Read also with the Act s 2(1)(d). Note also that an "acceptable tender" means any tender which in all respects complies with the specifications and conditions of tender set out in the tender document.

- (c) Any other acceptable tenders which are higher in price must score fewer points, on a *pro rata* basis. Points are calculated on their tender prices in relation to the lowest acceptable tender, in accordance with a prescribed formula.
- (d) The specific goals may include the contracting with persons or categories of persons that have been historically disadvantaged by unfair discrimination on the basis of race, gender or disability and the implementing of the programmes of the Reconstruction and Development Programme.²³
- (e) Any specific goal for which a point may be awarded must be clearly specified in the invitation to submit a tender.²⁴
- (f) The contract must be awarded to the tenderer who scores the highest points, unless objective criteria in addition to those contemplated in paragraphs (d) and (e) justify the award to another tenderer.
- (g) Any contract awarded on account of false information by a tenderer to secure preference may be cancelled at the sole discretion of the organ of state without prejudice to any other remedies the organ of state may have in terms of the law.

On request, however, the Minister of Finance may exempt an organ of state from any or all of the provisions of the Act. Such exemption is permitted only if it is in the interests of national security, if the likely tenderers are international suppliers or if it is in the public interest to grant exemption.²⁵ Any procurement processes implemented under a preferential procurement policy, where the invitation to tender was advertised before the commencement of the PPPFA, must be finalised as if the Act had not come into operation. Furthermore, the minister may make regulations regarding any matter that may be necessary or expedient in order to achieve the objectives of the Act.²⁶ With reference to the tender processes of municipalities, the supreme court of appeal in *Metro Projects CC and Another v Klerksdorp Local Municipality and Others*²⁷ held that any tender process must be fair, equitable and cost effective. As an organ of state in the local government sphere, a municipality, in awarding a tender, is obliged to comply with section

²³ See *Government Gazette* 16085 of 23/11/1994.

²⁴ Such goals must be measurable, quantifiable and monitored for compliance. See the Act s (2).

²⁵ Read the PPPFA s 3(a)-(e).

²⁶ Refer to the PPPFA ss 4 and 5.

²⁷ 2004 (1) SA 16 (SCA).

10G(5)(a) of the Local Government Transition Act,²⁸ read with section 217(1) of the Constitution. These provisions mandate it to do so in accordance with a system that is fair, equitable, transparent, competitive and cost-effective. The PPPFA requires organs of State to establish a procurement policy, and also makes it obligatory for the first respondent, as an organ of state in the local sphere, to follow a tender procedure for the procurement of goods and services.

There is also another reason why the tender procedure of a local authority must be fair. Invitations by organs of state to tender and the awarding of tenders where it is done in the exercise of public power is an administrative process. Section 3(2)(a) of the Promotion of Administrative Justice Act²⁹ requires the process to be lawful, procedurally fair and justifiable. Fairness must be decided on the circumstances of each case. In given circumstances it may be fair to ask a tenderer to explain an ambiguity in its tender; it may be fair to allow a tenderer to correct an obvious mistake and, particularly in a complex tender, it may be fair to ask for clarification or details required for its proper evaluation. Whatever is done may not cause the process to lose the attribute of fairness or, in the local government sphere, the attributes of transparency, competitiveness and cost-effectiveness.³⁰

- *Government guarantees* Governments, including municipalities, may guarantee a loan or loans only if the guarantee complies with the conditions set out in national legislation.³¹ In order to ensure accountability and transparency, the Constitution demands that every government publish a report each year on the guarantees it has granted. This is an important requirement, since a government guarantee is a legally binding instrument whereby such government has financially bound itself to the extent of that guarantee.
- *The remuneration of persons that are holding public office* In the former system for local government in South Africa, the remuneration of municipal office bearers had a significant impact on municipal finance. According to the Act on the remuneration of town clerks,³² the town clerk was the highest paid official of a municipality, and his or her salary scale was the sealing of all salaries for a particular

²⁸ 209 of 1993.

²⁹ 3 of 2000.

³⁰ See pages 20-21.

³¹ See the Constitution s 218. The national legislation referred to in this section may be enacted only after any recommendations of the Financial and Fiscal Commission have been considered.

³² 115 of 1984.

municipality. Municipalities were further divided into categories, rated from 1 to 14, 1 being the smallest municipality and 14 the biggest. The top salary, that of the town clerk, was determined according to the specific category. Town clerks of category 14 municipalities earned much more than their counterparts in smaller local government structures. Under the new dispensation, the Constitution requires that an Act of parliament establish a framework for determining the upper limits of salaries, allowances or benefits of *inter alia* municipal councils of the different categories of municipality.³³ In order to make recommendations concerning the salaries, allowances and benefits mentioned above, the Constitution obligates national parliament to enact national legislation, which must then establish an independent commission to undertake such tasks. The provisions of such a national law may be implemented only by government institutions, including municipalities, after the consideration of any recommendations of the independent commission.³⁴

- *The establishment of the Financial and Fiscal Commission* Under the new financial framework, the Constitution confirms that there is a Financial and Fiscal Commission (FFC) for the Republic of South Africa which makes recommendations on government fiscal matters to parliament, provincial legislatures or other authorities. The commission is independent and subject only to the Constitution and the law. It must also be impartial and must perform its functions in terms of an Act of parliament.³⁵ The commission consists out of a chairperson and a deputy chairperson, one person nominated by the executive councils of each of the nine provinces, two persons nominated by organised local government and nine other

³³ See the Constitution s 219(1)(b). It is interesting to note that only the *upper limit of salaries, allowances or benefits* of members of provincial legislatures, MECs and members of municipal councils must be established in terms of national legislation. See the Constitution s 219(1)(a). The Constitution does not require the national Act to prescribe only the upper limits of salaries or benefits of members of the NA or NCoP, cabinet, deputy ministers, traditional leaders or members of councils of traditional leaders. The Act must establish the specific salaries or benefits that are applicable. This position seems to indicate that a similar system as was used under the Act for the remuneration of town clerks is proposed for local government.

³⁴ Refer to the Constitution s 219(2) and (4). In compliance with this requirement, parliament has enacted the Independent Commission for the Remuneration of Public Office-bearers Act 92 of 1997.

³⁵ See the Constitution s 220. Furthermore, the Financial and Fiscal Commission Act 99 of 1997 has been enacted to give effect to the constitutional requirements that relates to the FFC.

persons.³⁶ Finally the FFC is obligated to report regularly, both to parliament and to the provincial legislatures.³⁷

- *Provincial revenue funds and national sources of provincial and local government funding* Apart from the national revenue fund, the Constitution also determines that there should be a provincial revenue fund for each of the provinces into which all money received by a provincial government must be paid.³⁸ Money may be withdrawn from a provincial revenue fund only in terms of an appropriation allowed by a provincial Act. More importantly is the provision that revenue allocated through a province to local governments in terms of section 214(1) of the Constitution is a direct charge against that province's revenue fund.³⁹ It is furthermore determined that local government and each province is entitled to:
 - (a) an equitable share of revenue raised nationally to enable it to provide basic services and to perform the functions allocated to it
 - (b) receive other allocations from national government revenue, either conditionally or unconditionally.⁴⁰

An important provision in this regard is that the Constitution protects additional revenue raised by provinces or municipalities. Such additional revenue may not be deducted from their share of revenue raised nationally or from any other allocations made to them. If a municipality is thus entitled to a specific share of revenue, but it has also earned additional revenue, by whatever means, such revenue may not be deducted from its original share amount. The intention of the constitutional

³⁶ There should thus be in total 22 members of the commission. Members must also have appropriate expertise, which would include financial and public affairs expertise. See the Constitution s 221.

³⁷ Refer to the Constitution s 222.

³⁸ Exceptions may be provided for through an Act of parliament.

³⁹ Refer to the Constitution s 226. The Constitution further states that national legislation may determine a framework within which revenue allocated through a province to local government in that province, must be paid to municipalities in the province. In this regard the Intergovernmental Fiscal Relations Act 97 of 1997 has been enacted. The purposes of the act are to promote co-operation between the spheres of government relating to fiscal and budgetary matters, and to ensure equitable sharing and the allocation of revenue.

⁴⁰ See the Constitution s 227(1)(a)-(b). It is of interest to note that in the case of *In re: Certification of the Constitution of the RSA 1996*, 1996 (4) SA 744 (CC) the Constitutional Court held that the absence in the new text of the Constitution of a provision equivalent to the interim Constitution s 158(b), which provided that [the] financial allocations by the national government to local government shall ordinarily be made through the provincial government of the province in which the local government is situated was not a material diminution in the powers of provincial governments. S 158(b) established [only] the possibility, not the certainty, that provincial government could be utilised as a conduit through which funds raised nationally could be allocated to local government.

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drafters seems to be to promote and encourage provinces and municipalities to implement initiatives, so as to earn additional income. If such income were to be deducted from a municipality's share in income then there would be no motivation or purpose for it to secure additional revenue. By protecting additional revenue, municipalities are encouraged to devise new initiatives in order to raise more money for themselves and to thus be more able to fulfil and perform their functions and duties. As a counter protection, the Constitution also determines that there is no obligation on the national government to compensate provinces or municipalities that do not raise revenue commensurate with their fiscal capacity and tax base.⁴¹ It is submitted that although national government is under no obligation to compensate the two lower spheres of government for their own ineffectiveness to raise revenue which they should have raised, national government, being the highest sphere of government, is still constitutionally obligated to intervene and oversee the fulfilment of the duties and functions of the lower spheres.⁴²

- *Municipal fiscal powers and functions* The chapter on finance in the Constitution specifically determines certain fiscal powers and functions for municipalities. In this regard municipalities may impose:
 - (a) rates on property and surcharges on fees for services provided by or on behalf of the municipality
 - (b) other taxes, levies and duties appropriate to local government or the specific category concerned if so authorised by national legislation.⁴³

Such a section did not purport to create provincial powers in respect of such revenue. See para 430 at 897.

⁴¹ See the Constitution s 227(2).

⁴² See the Constitution ss 100, 139 and 154 respectively. Refer also to the case of *Member of the Executive Council for Local Government, Mpumalanga v IMATU and Others* 2002 (1) SA 76 (SCA). The court stated that the Constitution ss 139 and 154 do not impose on a provincial government the constitutional duty towards a local authority to provide it with funds to enable it to pay its debts. See paras 8-10 at 79.

⁴³ Refer to the Constitution s 229(a)-(b). National legislation must therefore determine such other taxes or levies before local governments may impose them. See also *Gerber and others v Member of the Executive Council for Development, Planning and Local Government, Gauteng and Another* 2003 (2) SA 344 (SCA). The case concerned an appeal regarding the legality of land rates imposed on owners of agricultural land. The local authority argued that it was entitled to impose a flat rate under the provisions of the Ordinance for the Transvaal Board for the Development of Peri-Urban Areas 20 of 1943 (T). The court held that the original powers granted to municipalities in terms of the Constitution s 229(1)(a) were to impose a property rate. "Rate" referred to rate on property in relation to size or value of property. S 229 did not depart from such a meaning. The LGTA s 10G(6) stated in pre-emptory terms that if not feasible to value or measure a property, rates could be determined as prescribed. Data of the properties was provided. The court held that there was no correlation between the size of the property and the rate imposed, thus the rate imposed

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It is, however, specifically determined that no municipality may impose income tax, value-added tax, general sales tax or customs duty. Such taxes may be imposed only by the national government; not even by provincial governments.⁴⁴ Municipalities clearly have the authority to impose rates on property and surcharges on fees for services and other taxes, levies or duties. However, such power or authority may not be exercised in a way that materially and unreasonably prejudices national economic policies, economic activities across municipal boundaries or the national mobility of goods, services, capital or labour. National legislation is again envisaged to regulate such powers of municipalities.⁴⁵ When two municipalities have the same fiscal powers and functions in an area, an appropriate division of such powers and functions must be made in terms of national legislation. The division may be made only after at least the following criteria have been taken into account:⁴⁶

- (a) the need to comply with sound principles of taxation
- (b) the powers and functions performed by each municipality
- (c) the fiscal capacity of each municipality
- (d) the effectiveness and efficiency of raising taxes, levies and duties
- (e) equity.

There is no prohibition on the sharing of revenue raised between municipalities that have fiscal powers in the same area. It is important that division of powers and the sharing of revenue between municipalities in the same area should be carefully considered and monitored. National legislation as well as the involve-

treated landowners unequally. Owners of smaller pieces of land paid as much as owners of larger tracts of land within same area. Since the council relied on the Constitution s 229(1)(a) and not s 229(1)(b), which allowed a levy on property, its basis for calculation of the levy/rate was irrational, unfair and discriminatory. The rates were thus set aside. See para 25-28 at 354 and para 36 at 357. Refer also to *Rates Action Group v City of Cape Town* 2004 (5) SA 545 (CPD). The case concerned the validity of a municipality levying service charges comprising part property rates and part service fees. The court held that there was nothing in the Constitution or other legislation that precluded a municipality from levying service charges that comprise both property rates and user fees. The court concluded that such authority is permitted under the LGTA, s 229 of the Constitution and ss 74-75 of the LG: Municipal Systems Act. See pages 560-561.

⁴⁴ See the Constitution s 228(1), which determines that provincial legislatures may impose taxes, levies and duties *other than* income tax, value-added tax, general sales tax, rates on property or customs duties. See the Constitution s 228(1)(a) read with s 229(1)(a).

⁴⁵ See the Constitution s 229(2).

⁴⁶ Refer to the Constitution s 229(3)(a)-(e).

ment of the FFC should play a vital role in creating an effective and equitable system of sharing revenue.⁴⁷

- *Municipal loans* The Constitution determines that a municipal council may, in accordance with national legislation:
 - (a) raise loans for capital or current expenditure for the municipality
 - (b) bind itself and a future council in the exercise of its legislative and executive authority in order to secure loans or investments for the municipality.

It must be noted, however, that loans for current expenditure may be raised only when it is necessary for bridging purposes during a fiscal year.⁴⁸ The national legislation that authorises municipal loans may be enacted only after recommendations of the FFC have been considered.

It is clear from sections 229 and 230A of the Constitution that the Constitution grants municipalities considerable taxation and borrowing powers, but subject such powers to national legislative control and regulation. Municipal taxation powers are further also limited, in that they may not unreasonably prejudice national economic policies and activities. Finally, the prohibition that borrowings may not fund budget deficits effectively outlaws deficit budgeting on local government level. It is quite evident that the new constitutional framework specifically demands that local authorities adhere to specific constitutional directives when dealing with financial matters. These basic directives may be expanded upon by parliament through the enactment of new national legislation.

18.2.2 The new basic policy objectives

In order to meet the new supreme objectives as set out in the Constitution, a new system of municipal finance had to be created. Such reconstruction had to conform

⁴⁷ The sharing of revenue between municipalities in the same area is applicable only between category B and C municipalities, and national legislation must regulate the position. Such national legislation may be enacted only after organised local government and the FFC have been consulted and any of their recommendations have been considered, however. See the Constitution s 229(5). See also *Robertson & Another v City of Cape Town and Another* 2004 (5) SA 412 (CPD), where the court held that bilateral consultation had to take place between the FFC and the Minister or Parliament regarding the provisions of the Structures Act as amended, before such provisions could be enacted. Refer to para 109-110 at 446-448.

⁴⁸ The importance of municipal loans should not be underestimated, and such loans could have a significant impact on the fulfilment of the powers and functions of future councils. Because of this important impact, only the municipal council may conclude loans and may not delegate such authority. See the Constitution s 160(2)(d) read together with s 230A.

to a number of basic policy principles. According to the White Paper on local government, the principles for the new system can *inter alia* be summarised as follows:⁴⁹

- *Revenue adequacy and certainty* All municipalities need to have access to adequate revenue sources to fulfil their powers and functions. Such sources should then be fully exploited in order for municipalities to meet their developmental objectives. In order to ensure compliance with their objectives, municipalities will need certainty regarding their revenue so as to allow them to plan realistically for the future.
- *Sustainability* Financial sustainability requires municipalities to ensure that their budgets are balanced. Income should cover expenditure adequately. In order to achieve sustainability, services should be provided at affordable levels, and municipalities must recover the costs of service delivery. Bail-outs for overspending on budgets or improper financial management will not be provided by higher spheres. In this regard, it is the responsibility of the political leadership to ensure that realistic budgets are set.
- *Effective and efficient use of resources*: Generally speaking, municipal resources are scarce and should be used in the best possible way to ensure maximum benefit for local communities. All communities should ensure through participation that their elected municipal council adheres to this important principle.
- *Accountability, transparency and good governance* Municipalities should be held responsible and accountable to local taxpayers for the use of public funds. Expenditure decisions must be explained in detail. The overall fiscal system should be designed to encourage accountability and should be open to public scrutiny. Community participation in the budgeting processes should be encouraged, and people should understand why decisions or priorities were taken. In general, the accounting procedures should allow for minimal opportunities for corruption and malpractice.
- *Equity and redistribution* Citizens must be treated equitably and within the ambit of the law. This treatment is also relevant to the provision of services. Municipalities themselves should also be treated equitably by the higher spheres of government regarding intergovernmental transfers. In order to ensure equity, municipalities are allowed to cross-subsidise between high and low-income con-

⁴⁹ See the White Paper on Local Government (1998) at 131-132.

sumers. The extent of cross-subsidisation is a local choice and needs to be exercised very carefully within the overall framework of a municipality's integrated development plan.

- *Adhering to national policies* Municipalities form an important part of the public sector in South Africa. Many actions or decisions of local governments can substantially affect national policy. Municipalities thus need to operate and fulfil the obligations within the national macro-economic framework of the state.

18.2.3 Financial matters under the Local Government Transition Act

Under the provisions of the LGTA, every municipality had to adhere to certain principles in respect of the management of its financial affairs. In this regard municipalities had to:⁵⁰

- conduct their affairs in an effective, economical and efficient manner with a view to optimising the use of their resources in addressing the needs of the community
- conduct their financial affairs in an accountable and transparent manner
- prepare a financial plan in accordance with the IDP
- structure and manage their administration, budgeting and planning processes to give priority to the basic needs of their communities, to promote social and economic development and to support the implementation of national and provincial development programmes
- manage their financial resources so as to meet and sustain their objectives
- regularly monitor and assess their performance against their IDP
- annually report to and receive comments from their community regarding the objectives set out in their IDPs.

According to the LGTA, the chief executive officer (CEO) was responsible for keeping accounting records that reflected the transactions and financial state of affairs of a municipality. All money received had to be deposited in a banking account in the name of the municipality. Every municipality was also obligated to establish and maintain a system of internal financial control. Furthermore, all municipal financial years were to end on 30 June of each year, and all accounts had to be audited by the Auditor-General.⁵¹ The report of the Auditor-General had to be submitted to the council, and notice of such referral to the council had to be given in a newspaper

⁵⁰ See LGTA s 10G(1)(a)-(g).

⁵¹ See the LGTA s 10G(2)(c)-(d).

circulating in the area. The council meeting on the report had to be open to the public, and the CEO had to be present to answer possible questions in his/her capacity as accounting officer.⁵²

On the point of accountability, the LGTA stated that if a person who is or was in the employ of a municipality caused a loss or damage for the municipality because he/she:

- failed to collect money owing to the municipality for which collection he/she was responsible
- was responsible for an irregular payment of money or payment not supported by a proper voucher
- was responsible for fruitless expenditure due to an omission
- was responsible for the destruction or damage to council property or
- was responsible, due to an omission, for a claim against the municipality, the CEO or the council, who had to determine the amount of such loss or damage, had to take disciplinary action where possible and had to recover the loss or damage in appropriate cases.

Any fraudulent and corrupt actions by employees had to be reported to the SANPS.⁵³ According to the Act, an expenditure was unauthorised if payment was made:

- by the CEO without provision having been made therefore by any budget or if payment resulted in the total amount of the approved annual operating or capital expenditure budget was exceeded
- if the CEO was unable to produce to the Auditor General (AG) or MEC or council authority for the payment as was required by law or where the CEO made a payment inconsistent with a provision by any law.

Any unauthorised expenditure had to be disallowed until approved by the responsible authority. Any unauthorised expenditure had to be recovered from the CEO if he/she was unwilling to recover such from either the beneficiary or person responsible for the expenditure. An interesting provision on this point was that in instances where unauthorised expenditure has been effected on a written instruction of a councillor or as a result of a council resolution in favour of which a councillor voted,

⁵² Refer to the LGTA s 10G(e)(i)-(iii).

⁵³ See the LGTA s 10G(2)(f)-(i).

unless it was recorded that the councillor voted against such resolution, the expenditure had to be recovered from the councillor(s) concerned.⁵⁴

The LGTA also provided for strong oversight procedures regarding the financial management of municipalities. If the MEC was of the opinion that the finances of a municipality were or became unsound, he/she could instruct the council to take certain steps specified in writing.⁵⁵

In respect of municipal budgets, the LGTA stated that a municipality had to compile and approve annually a budget with a two-thirds majority of all members of its council. The budget had to provide for operating income and expenditure and for capital expenditure which had to reflect the sources of finance, future capital charges, operating and maintenance costs as well as the consequential influence thereof on levies, rates and services charges. All municipalities had to ensure that they did not budget for a year-end deficit on their operating accounts and that their budgets were in accordance with their IDPs. Expenditure could be incurred only in accordance with the approved budget. Any decision to incur expenditure had to be taken by a majority of votes cast in council. It was also possible for the Minister of Finance to determine maximum expenditure limits for municipal budgets.⁵⁶ If a budget did not comply with the maximum expenditure limits, it had to be referred back to the council for reconsideration and amendment. In some cases, certain exceptions were allowed.

A further important provision in the LGTA was that municipalities had to award contracts for goods and services in accordance with a system which had to be fair, equitable, transparent, competitive and cost-effective. Preference could be given to persons previously disadvantaged by unfair discrimination. In cases of emergency, municipalities could dispense with the calling of tenders or if such option was allowed by law. Properties had to be valued and a single valuation roll for all properties had to be compiled, which had to be open to the public. Councils could levy and recover property rates, and metropolitan councils had to determine a common rating system.

⁵⁴ Refer to the LGTA s 10G(2)(k)-(l).

⁵⁵ See the LGTA s 10G(2)(m)(i)-(iii). The term "unsound" also included any failure to claim or collect income, to control expenditure or to compile and approve an operating budget. If a municipality did not comply to the instructions of the MEC, the MEC could take such steps as he/she deemed necessary to restore the finances to a sound footing.

⁵⁶ See the LGTA s 10G(3)-(4). A municipal budget had to be submitted to the minister of Finance within 14 days of its adoption. The minister could delegate this monitoring power to the MEC.

Municipalities could also levy and recover levies, fees, taxes and tariffs, also known as charges. A municipality could also

- differentiate between different categories of user or property on such grounds as it deemed reasonable
- in respect of charges, amend or withdraw previous determinations
- recover any charges, including interest on any outstanding amount.⁵⁷

Municipalities could also obtain money and raise loans for capital expenditure. The Minister of Finance could determine reasonable conditions and criteria regarding loans, however. Loans for bridging finance, which included bank overdrafts, could be raised by a municipality during a financial year only in order to finance current expenditure in anticipation of the receipt of revenue in that year. Municipalities could not raise loans denominated in a foreign currency and were not permitted to incur any other liability or risk payable in a foreign currency without approval by the minister of Finance. Any money borrowed by a municipality was a financial obligation of the municipality and was chargeable and payable from the revenues and assets of that municipality.⁵⁸

In respect of investment policies, a municipality could make investment in various instruments with the concurrence of the minister of Finance. Such instruments included *inter alia*

- deposits with registered banks
- securities issued by the national government
- municipal stock
- long-term securities offered by insurance companies.⁵⁹

With the concurrence of the Minister of Finance, the minister of Local Government could determine other investment instruments. Full details of any investments had to be published. Finally, municipalities had to ensure that the acquisition, disposal, utilisation, control and maintenance of its assets were carried out in an economic, efficient and effective manner.⁶⁰

⁵⁷ See the LGTA s 10G(7)(a)-(b). Decisions regarding charges had to be passed on to the MEC and to the public, who could lodge objections.

⁵⁸ See the LGTAs 10G(8).

⁵⁹ See the LGTA s 10G(9)(a)(i)-(ix).

⁶⁰ Refer to the LGTA s 10G(10)-(12). No claim of any creditor of any municipality could attach or be paid out of the national revenue fund or be paid by the national or any provincial government, unless this was specifically authorised by such government.

18.3 Legislative control mechanisms over municipal finance matters

18.3.1 Parliamentary control

In compliance with the new constitutional demands and in order to secure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government and furthermore to establish treasury norms and standards for the local sphere of government, the national parliament has enacted the Local Government: Municipal Finance Management Act (MFMA).⁶¹ The object of the MFMA is to be achieved by establishing norms and standards and other requirements for the following issues:⁶²

- (a) ensuring transparency, accountability and appropriate lines of responsibility in the financial and fiscal affairs of municipalities and municipal entities;
- (b) the management of revenues, expenditures, assets, liabilities and the handling of municipal financial dealings;
- (c) budgetary and financial processes and the co-ordination of those processes with the processes of organs of state in other spheres of government;
- (d) borrowing;
- (e) the handling of financial problems in municipalities;
- (f) supply chain management; and
- (g) other financial matters.

18.3.1.1 The broad requirements of the Local Government: Municipal Finance Management Act

(a) Application and aspects of supervision over local government financial management

The MFMA applies to

- all municipalities
- all municipal entities⁶³
- national and provincial organs of state to the extent of their financial dealings with municipalities.⁶⁴

In the event of any inconsistency between a provision of the MFMA and any other legislation in force when the MFMA took effect and which regulates any aspect of the

⁶¹ 56 of 2003, hereafter referred to as the MFMA. See also the long title of the MFMA.

⁶² See the MFMA s 2(a)-(g).

⁶³ A municipal entity is defined in terms of the Municipal Systems Act s 1.

⁶⁴ The MFMA s 3(1)(a)-(c).

fiscal and financial affairs of municipalities or municipal entities, the provision of the MFMA prevails.⁶⁵ Draft national legislation directly or indirectly amending the MFMA or providing for the enactment of subordinate legislation that may conflict with the Act may be introduced in Parliament only after the Minister of Finance and the Financial and Fiscal Commission have been consulted in writing on the contents of the draft legislation, and after they have responded in writing.⁶⁶

The MFMA further determines general functions of the National Treasury and provincial treasuries. The National Treasury must:

- fulfil its responsibilities in terms of Chapter 13 of the Constitution and the Act
- promote the object of the Act as stated in section 2
 - (a) within the framework of co-operative government set out in chapter 3 of the Constitution and
 - (b) when coordinating intergovernmental financial and fiscal relations in terms of the Intergovernmental Fiscal Relations Act, the annual Division of Revenue Act and the Public Finance Management Act⁶⁷ and
- enforce compliance with the measures established in terms of section 216(1) of the Constitution, including those established in terms of the MFMA.⁶⁸

To the extent necessary to comply with the general functions mentioned above, the National Treasury may:

- (a) monitor the budgets of municipalities to establish whether they:
 - (i) are consistent with the national government's fiscal and macro-economic policy; and
 - (ii) comply with chapter 4;
- (b) promote good budget and fiscal management by municipalities, and for this purpose monitor the implementation of municipal budgets, including their expenditure, revenue collection and borrowing;
- (c) monitor and assess compliance by municipalities and municipal entities with—
 - (i) the act; and
 - (ii) any applicable standards of generally recognised accounting practice and uniform expenditure and revenue classification systems;

⁶⁵ The MFMA s 3(2).

⁶⁶ See the MFMA s 4.

⁶⁷ The Act provided for under the Constitution s 214(1) and also Act 97 of 1997 respectively.

⁶⁸ See the MFMA s 5(1)(a)-(c).

- (d) investigate any system of financial management and internal control in any municipality or municipal entity and recommend improvements;
- (e) take appropriate steps if a municipality or municipal entity commits a breach of the act, including the stopping of funds to a municipality in terms of section 216(2) of the Constitution if the municipality, or a municipal entity under the sole or shared control of that municipality, commits a serious or persistent material breach of any measures referred to in that section; and
- (f) take any other appropriate steps necessary to perform its functions effectively.⁶⁹

In turn, a provincial treasury must in accordance with a prescribed framework

- fulfil its responsibilities in terms of the Act
- promote the object of the Act as stated in section 2 within the framework of co-operative government set out in chapter 3 of the Constitution and
- assist the National Treasury in enforcing compliance with the measures established in terms of section 216(1) of the Constitution, including those established in terms of the Act.⁷⁰

To the extent necessary to comply with the abovementioned requirements, a provincial treasury:

- (a) must monitor –
 - (i) compliance with the act by municipalities and municipal entities in the province;
 - (ii) the preparation by municipalities in the province of their budgets;
 - (iii) the monthly outcome of those budgets; and
 - (iv) the submission of reports by municipalities in the province as required in terms of the act;
- (b) may assist municipalities in the province in the preparation of their budgets;
- (c) may exercise any powers and must perform any duties delegated to it by the National Treasury in terms of the act; and
- (d) may take appropriate steps if a municipality or municipal entity in the province commits a breach of the act.⁷¹

⁶⁹ See the MFMA s 5(2)(a)-(f).

⁷⁰ See the MFMA s 5(3)(a)-(c).

⁷¹ The MFMA s 5(4)(a)-(d).

It should be noted that the functions assigned to the National Treasury or a Provincial Treasury in terms of the MFMA are additional to those assigned to the National Treasury or a Provincial Treasury in terms of the Public Finance Management Act.⁷² The Minister of Finance, as the head of the National Treasury, takes all decisions of the National Treasury in terms of the Act, except those decisions taken as a result of a delegation in terms of section 6(1). Similarly, the MEC for finance in a province, as the head of the provincial treasury, takes all decisions of the provincial treasury in terms of the Act, except those decisions taken as a result of a delegation in terms of section 6(4). A provincial treasury must submit all information submitted to it in terms of the MFMA to the National Treasury on a quarterly basis, or when so requested.⁷³

According to the MFMA, both the National Treasury and provincial treasuries are authorised to delegate their powers. On a national level the minister may delegate any of the powers or duties assigned to the National Treasury in terms of the MFMA to

- the Director-General of the National Treasury or
- the MEC responsible for a provincial department, as the minister and the MEC may agree.⁷⁴

It should be noted, however, that the minister may not delegate the National Treasury's power to stop funds to a municipality in terms of section 5(2)(e).⁷⁵ A delegation authorised under section 6(1) is restricted as follows:

- (a) must be in writing;
- (b) is subject to any limitations or conditions which the minister may impose;
- (c) may, subject to any such limitations or conditions, authorise –
 - (i) the Director-General of the National Treasury to sub-delegate a delegated power or duty to a staff member of the National Treasury; and
 - (ii) the MEC responsible for the relevant provincial department to sub-delegate a delegated power or duty to a staff member of that department; and
- (d) does not divest the National Treasury of the responsibility concerning the

⁷² 1 of 1999.

⁷³ See the MFMA s 5(5)-(8).

⁷⁴ Refer to the MFMA s 6(1)(a)-(b).

⁷⁵ The MFMA s 6(2).

exercise of the delegated power or the performance of the delegated duty.⁷⁶

The MEC for finance in a province may also delegate any of the powers or duties assigned to a provincial treasury in terms of the Act to the head of the relevant provincial department of which the provincial treasury forms part. Such delegation is subjected to the same conditions as are required on national level.⁷⁷ Both the minister or MEC for finance in a province may confirm, vary or revoke any decision taken in consequence of a delegation or sub-delegation, but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.⁷⁸

(b) Aspects relating to municipal revenue

Under the new legislative framework, every municipality must open and maintain at least one bank account in the name of the municipality. All money received by a municipality must be paid into its bank account or accounts, and this must be done promptly and in accordance with the MFMA and any requirements that may be prescribed. A municipality may not open a bank account:

- abroad
- with an institution not registered as a bank in terms of the Banks Act⁷⁹ or
- otherwise than in the name of the municipality.⁸⁰

Money may be withdrawn from a municipal bank account only in terms of the procedure set out in section 11(1) of the MFMA.

It is further required for each municipality to have a primary bank account. If a municipality has only one bank account, that account is its primary bank account. If it has more than one bank account, it must designate one of those bank accounts as its primary bank account.⁸¹ Specific moneys must be paid into a municipality's primary bank account. Such moneys include:

⁷⁶ See the MFMA s 6(3)(a)-(d).

⁷⁷ Read the MFMA ss 6(3) and 6(5) together.

⁷⁸ The MFMA s 6(6).

⁷⁹ 94 of 1990.

⁸⁰ See the MFMA s 7(1)-(2).

⁸¹ The MFMA s 8(1)(a)-(b).

- all allocations to the municipality, including those made to the municipality for transmission to a municipal entity or other external mechanism assisting the municipality in the performance of its functions⁸²
- all income received by the municipality on its investments
- all income received by the municipality in connection with its interest in any municipal entity, including dividends
- all money collected by a municipal entity or other external mechanism on behalf of the municipality and
- any other moneys as may be prescribed.⁸³

The accounting officer of a municipality must submit to the National Treasury, the relevant provincial treasury and the Auditor-General, in writing, the name of the bank where the primary bank account of the municipality is held and the type and number of the account. If a municipality wants to change its primary bank account, it may do so only after the accounting officer has informed the National Treasury and the Auditor-General, in writing, at least 30 days before effecting the change.⁸⁴

Each accounting officer of a municipality must submit to the relevant provincial treasury and the Auditor-General, in writing, the following information:

- within 90 days after the municipality has opened a new bank account, the name of the bank where the account has been opened, and the type and number of the account and
- annually before the start of a financial year, the name of each bank where the municipality holds a bank account, and the type and number of each account.⁸⁵

It is the responsibility of the accounting officer of a municipality to

- administer all the municipality's bank accounts

⁸² "Allocation" in relation to a municipality means: (a) a municipality's share of the local government's equitable share referred to in the Constitution s 214(a); (b) an allocation of money to a municipality in terms of the Constitution s 214(1)(c); (c) an allocation of money to a municipality in terms of a provincial budget; or (d) any other allocation of money to a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction. See the MFMA s 1 definitions.

⁸³ Refer to the MFMA s 8(2)(a)-(e). A municipality must take all reasonable steps to ensure that all moneys referred to above are paid into its primary bank account. Furthermore, no organ of state in the national, provincial or local sphere of government may transfer an allocation of money referred to above to a municipality, except through the municipality's primary bank account. All allocations due by an organ of state to a municipal entity must be made through the parent municipality, or if there is more than one parent municipality, any of those parent municipalities as may be agreed between the parent municipalities.

⁸⁴ Refer to the MFMA s 8(5).

⁸⁵ See the MFMA s 9(a)-(b).

- account to the municipal council for the municipality's bank accounts
- enforce compliance with the requirements of the MFMA.

The accounting officer may delegate the duties referred to above to the municipality's chief financial officer only.⁸⁶

Only the accounting officer or the chief financial officer of a municipality or any other senior financial official acting on the written authority of the accounting officer may withdraw money or authorise the withdrawal of money from any of the municipality's bank accounts, and may do so only:

- (a) to defray expenditure appropriated in terms of an approved budget;⁸⁷
- (b) to defray expenditure authorised in terms of section 26(4) of the MFMA;
- (c) to defray unforeseeable and unavoidable expenditure authorised in terms of section 29(1) of the MFMA;
- (d) in the case of a bank account opened in terms of section 12 of the MFMA, to make payments from the account in accordance with subsection (4) of that section;
- (e) to pay over to a person or organ of state money received by the municipality on behalf of that person or organ of state, including –
 - (i) money collected by the municipality on behalf of that person or organ of state by agreement; or
 - (ii) any insurance or other payments received by the municipality for that person or organ of state;
- (f) to refund money incorrectly paid into a bank account;
- (g) to refund guarantees, sureties and security deposits;
- (h) for cash management and investment purposes in accordance with section 13 of the MFMA;
- (i) to defray increased expenditure in terms of section 31 of the act; or
- (j) for such other purposes as may be prescribed.⁸⁸

Any authorisation to a senior financial official to withdraw money or to authorise the withdrawal of money from a bank account must be in accordance with a framework

⁸⁶ See the MFMA s 10(1)-(2).

⁸⁷ An "approved budget" means an annual budget (a) approved by a municipal council or (b) approved by a provincial or the national executive following an intervention in terms of the Constitution s 139 and includes such an annual budget as revised by an adjustments budget in terms of the MFMA s 28. See s 1 definitions.

⁸⁸ See the MFMA s 11(a)-(j).

as may be prescribed. The accounting officer may not authorise any official other than the chief financial officer to withdraw money or to authorise the withdrawal of money from the municipality's primary bank account if the municipality has a primary bank account which is separate from its other bank accounts.⁸⁹

Within 30 days after the end of each quarter, it is the responsibility of the accounting officer to table in the municipal council a consolidated report of all withdrawals made in terms of subsection 11(1)(b) to (j) of the Act during that quarter and to submit a copy of the report to the relevant provincial treasury and the Auditor-General.⁹⁰

No political structure or office-bearer of a municipality may set up a relief fund, charitable fund, trust or other fund of whatever description, except in the name of the municipality. Only the municipal manager may be the accounting officer of any such fund. A municipality may open a separate bank account in the name of the municipality for the purpose of a relief fund, charitable fund, trust or other fund, however. All money received by the municipality for the purpose of such a fund must be paid into a bank account of the municipality or into a separate bank account if one has been opened. Money in a separate account may be withdrawn from the account without appropriation in terms of an approved budget, but only by or on the written authority of the accounting officer acting in accordance with decisions of the municipal council and also only for the purposes for which the fund was established or the money in the fund was donated.⁹¹

The MFMA further provides that the minister, acting in concurrence with the Cabinet member responsible for local government, may prescribe a framework within which municipalities must conduct their cash management and investments and invest money not immediately required. Each municipality must establish *an appropriate and effective cash management and investment policy* in accordance with any framework that may be prescribed.⁹² A bank where a municipality holds a bank account at the end of a financial year, or held a bank account at any time during a financial year, must:

⁸⁹ Note that money may be withdrawn from a bank account in terms of s 11(1)(b) to (j) without appropriation in terms of an approved budget. See the MFMA s 11(3).

⁹⁰ Refer to the MFMA ss 11(4)(a)-(b). A "quarter" is defined under the MFMA as any of the following periods in a financial year: (a) 1 July to 30 September, (b) 1 October to 31 December, (c) 1 January to 31 March, or (d) 1 April to 30 June. See s 1 definitions.

⁹¹ See the MFMA s 12(1)-(4).

⁹² See the MFMA s 13(1)-(2).

- within 30 days after the end of that financial year notify the Auditor-General, in writing, of such bank account, including
 - (a) the type and number of the account and
 - (b) the opening and closing balances of that bank account in that financial year and
- promptly disclose information regarding the account when so requested by the National Treasury or the Auditor-General.

A bank, insurance company or other financial institution which at the end of a financial year holds, or at any time during a financial year held, an investment for a municipality, must also

- within 30 days after the end of that financial year, notify the Auditor-General, in writing, of that investment, including the opening and closing balances of that investment in that financial year and
- promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor-General.⁹³

Under the new legislative dispensation a municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services.⁹⁴ A municipality may transfer ownership or otherwise dispose of a capital asset other than one mentioned above, but only after the municipal council in a meeting open to the public:

- has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services and
- has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.⁹⁵

After a decision by a municipal council that a specific capital asset is not needed to provide the minimum level of basic municipal services, such decision may not be reversed by the municipality after that asset has been sold, transferred or otherwise disposed of. A municipal council may delegate to the accounting officer of the mu-

⁹³ Refer to the MFMA s 13(3)-(4).

⁹⁴ A "basic municipal service" means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment. See the MFMA s 1 definitions.

⁹⁵ See the MFMA s 14(1)-(2).

municipality its power to make the determinations referred to in subsection (2) (a) and (b) of the MFMA in respect of movable capital assets below a value determined by the council. Any transfer of ownership of a capital asset in terms of subsection (2) or (4) must be fair, equitable, transparent, competitive and consistent with the *supply chain management policy* which the municipality must have and maintain in terms of section 111 of the MFMA.⁹⁶

(c) Aspects relating to municipal budgets

A municipality may, except where otherwise provided in the MFMA, incur expenditure or appropriate funds only:

- in terms of an approved budget and
- within the limits of the amounts appropriated for the different votes in an approved budget.⁹⁷

For each financial year, the council of a municipality must approve an annual budget for the municipality before the start of that financial year.⁹⁸ In order for a municipality to approve an annual budget, the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.⁹⁹

According to the MFMA, an annual budget of a municipality must be a schedule in the prescribed format and must incorporate the following:

- (a) setting out realistically anticipated revenue for the budget year from each revenue source;
- (b) appropriating expenditure for the budget year under the different votes of the municipality;
- (c) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
- (d) setting out –
 - (i) estimated revenue and expenditure by vote for the current year; and

⁹⁶ These requirements do not apply to the transfer of a capital asset to another municipality or to a municipal entity or to a national or provincial organ of state in circumstances and in respect of categories of assets approved by the National Treasury, provided that such transfers are in accordance with a prescribed framework. See the MFMA s 14(4)-(6).

⁹⁷ See the MFMA s 15(a)-(b).

⁹⁸ "Financial year" means a year ending on 30 June of a particular year. See the MFMA s 1 definitions.

⁹⁹ Refer to the MFMA s 16(1)-(2). It should be noted that the approval of an annual budget does not preclude the appropriation of money for capital expenditure for a period exceeding three financial years, provided that a separate appropriation is made for each of those financial years. The

continued on next page

- (ii) actual revenue and expenditure by vote for the financial year preceding the current year; and
- (e) a statement containing any other information required by section 215(3) of the Constitution or as may be prescribed.¹⁰⁰

An annual budget must generally be divided into a *capital and an operating budget* in accordance with international best practice, as may be prescribed. When an annual budget is tabled, it must be accompanied by the following documents:

- (a) Draft resolutions –
 - (i) approving the budget of the municipality;
 - (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and
 - (iii) approving any other matter that may be prescribed;
- (b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;
- (c) a projection of cash flow for the budget year by revenue source, broken down per month;
- (d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;
- (e) any proposed amendments to the budget-related policies of the municipality;
- (f) particulars of the municipality's investments;
- (g) any prescribed budget information on municipal entities under the sole or shared control of the municipality;
- (h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;
- (i) particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;
- (j) particulars of any proposed allocations or grants by the municipality to –
 - (i) other municipalities;

MFMA s 16(3). A budget year seems to be the year from 1 July of a year until 30 June of the next year.

¹⁰⁰ See the MFMA s 17(1)(a)-(e).

- (ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;
- (iii) any other organs of state;
- (iv) any organisations or bodies referred to in section 67 (1);
- (k) the proposed cost to the municipality for the budget year of the salary, allowances and benefits of –
 - (i) each political office-bearer of the municipality;¹⁰¹
 - (ii) councillors of the municipality; and
 - (iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;
- (l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of –
 - (i) each member of the entity's board of directors; and
 - (ii) the chief executive officer and each senior manager of the entity; and
- (m) any other supporting documentation as may be prescribed.¹⁰²

It is further required that an annual budget may be funded only from

- realistically anticipated revenues to be collected
- cash-backed accumulated funds from previous years' surpluses not committed for other purposes
- borrowed funds, but only for the capital budget referred to in section 17(2).

All revenue projections in the budget must be realistic, taking into account the projected revenue for the current year based on collection levels to date and also the actual revenue collected in previous financial years.¹⁰³ Under the new financial dispensation a municipality may spend money on a capital project only if:

¹⁰¹ Note that a political office-bearer in relation to a municipality means (a) the speaker, executive mayor, deputy executive mayor, mayor, deputy mayor or a member of the executive or mayoral committee of a municipality elected, designated or appointed in terms of a specific provision of the Municipal Structures Act or (b) a councillor referred to in the MFMA s 57(1). See s 1.

¹⁰² See the MFMA s 17(3)(a)-(m). Note that according to the definitions set out in the MFMA, "shared control" means the rights and powers a municipality has over a municipally entity which is (a) a private company in which effective control as defined in the Municipal Systems Act s 1 is vested in that municipality and one or more other municipalities collectively or (b) a multi-jurisdictional service utility in which that municipality participates, and "sole control" means the rights and powers a municipality has over a municipal entity which is (a) a private company in which effective control as defined in the Municipal Systems Act s 1 is vested in that municipality alone or (b) a service utility established by the municipality.

¹⁰³ Refer to the MFMA s 18(1)-(2).

- (a) the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget referred to in section 17(2);
- (b) the project, including the total cost, has been approved by the council;
- (c) section 33 has been complied with, to the extent that that section may be applicable to the project; and
- (d) the sources of funding have been considered, are available and have not been committed for other purposes.¹⁰⁴

Before approving a capital project the council of a municipality must consider various issues. Such issues include:

- (a) the projected cost covering all financial years until the project is operational; and
- (b) the future operational costs and revenue on the project, including municipal tax and tariff implications.¹⁰⁵

The MFMA specifically provides that the minister, acting with the concurrence of the Cabinet member responsible for local government, must prescribe the form of the annual budget of municipalities and may prescribe matters such as:

- the form of resolutions and supporting documentation relating to the annual budget
- the number of years preceding and following the budget year for which revenue and expenditure history or projections must be shown in the supporting documentation
- inflation projections to be used with regard to the budget
- uniform norms and standards concerning the setting of municipal tariffs, financial risks and other matters where a municipality uses a municipal entity or other external mechanism for the performance of a municipal service or other function
- uniform norms and standards concerning the budgets of municipal entities or
- any other uniform norms and standards aimed at promoting transparency and expenditure control.¹⁰⁶

¹⁰⁴ Read the MFMA s 19(1)(a)-(d).

¹⁰⁵ See the MFMA s 19(2)(a)-(b). A municipal council may approve capital projects below a prescribed value, however. Such approval may be done either individually or as part of a consolidated capital programme. S 19(3).

¹⁰⁶ See the MFMA s 20(1)(b)(i)-(vi). See also the Municipal Investment Regulations and the Municipal Public-Private Partnership Regulations published under the MFMA.

The minister may further take appropriate steps to ensure that a municipality in the exercise of its fiscal powers as is set out in section 229 of the Constitution does not materially and unreasonably prejudice:

- national economic policies, particularly those on inflation, administered pricing and equity
- economic activities across municipal boundaries and
- the national mobility of goods, services, capital or labour.¹⁰⁷

With regard to the budget preparation processes, the MFMA determines that the mayor of a municipality must:

- (a) co-ordinate the processes for preparing the annual budget and for reviewing the municipality's integrated development plan and budget-related policies to ensure that the tabled budget and any revisions of the integrated development plan and budget-related policies are mutually consistent and credible;¹⁰⁸
- (b) at least 10 months before the start of the budget year, table in the municipal council a time schedule outlining key deadlines for –
 - (i) the preparation, tabling and approval of the annual budget;
 - (ii) the annual review of –
 - (aa) the integrated development plan in terms of section 34 of the Municipal Systems Act; and
 - (bb) the budget-related policies;
 - (iii) the tabling and adoption of any amendments to the integrated development plan and the budget-related policies; and
 - (iv) any consultative processes forming part of the processes referred to in subparagraphs (i), (ii) and (iii).¹⁰⁹

When preparing the annual budget, the mayor of a municipality must also:

- (a) take into account the municipality's integrated development plan;

¹⁰⁷ The MFMA s 20(2)(a)-(c).

¹⁰⁸ A budget-related policy means a municipal policy affecting or affected by the annual budget of the municipality, including (a) the tariffs policy which the municipality must adopt in terms of section 74 of the Municipal Systems Act, (b) the rates policy which the municipality must adopt in terms of legislation regulating municipal property rates or (c) the credit control and debt collection policy which the municipality must adopt in terms of s 96 of the Municipal Systems Act. Refer to the MFMA s 1.

¹⁰⁹ Read the MFMA s 21(1)(a)-(b).

- (b) take all reasonable steps to ensure that the municipality revises the integrated development plan in terms of section 34 of the Municipal Systems Act, taking into account realistic revenue and expenditure projections for future years;
- (c) take into account the national budget, the relevant provincial budget, the national government's fiscal and macro-economic policy, the annual Division of Revenue Act and any agreements reached in the Budget Forum;
- (d) consult –
 - (i) the relevant district municipality and all other local municipalities within the area of the district municipality, if the municipality is a local municipality;
 - (ii) all local municipalities within its area, if the municipality is a district municipality;
 - (iii) the relevant provincial treasury, and when requested, the National Treasury; and
 - (iv) any national or provincial organs of state, as may be prescribed; and
- (e) provide, on request, any information relating to the budget –
 - (i) to the National Treasury;¹¹⁰ and
 - (ii) subject to any limitations that may be prescribed, to –
 - (aa) the national departments responsible for water, sanitation, electricity and any other service as may be prescribed;
 - (bb) any other national and provincial organ of states, as may be prescribed; and
 - (cc) another municipality affected by the budget.¹¹¹

Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must:

- (a) in accordance with chapter 4 of the Municipal Systems Act –
 - (i) make public the annual budget and the documents referred to in section 17(3); and
 - (ii) invite the local community to submit representations in connection with the budget; and
- (b) submit the annual budget –

¹¹⁰ Note that reference to the National Treasury means the National Treasury established by the Public Finance Management Act s 5. See the MFMA s 1.

¹¹¹ See the MFMA s 21(2)(a)-(e).

- (i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and
- (ii) in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.¹¹²

In an effort to further accountability and public participation, the MFMA requires that when the annual budget has been tabled, the municipal council must consider any views of:

- the local community and
- the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.

After considering all budget submissions, the council must give the mayor an opportunity:

- to respond to the submissions and
- if necessary, to revise the budget and table amendments for consideration by the council.¹¹³

The National Treasury may issue guidelines on the manner in which municipal councils should process their annual budgets, including guidelines on the formation of a committee of the council to consider the budget and to hold public hearings. No guidelines issued in terms the MFMA are binding on a municipal council unless adopted by the council.¹¹⁴

At least 30 days before the start of their budget years, all municipal councils must consider approval of the annual budget. An annual budget:

- (a) must be approved before the start of the budget year;
- (b) is approved by the adoption by the council of a resolution; and
- (c) must be approved together with the adoption of resolutions as may be necessary –
 - (i) imposing any municipal tax for the budget year;
 - (ii) setting any municipal tariffs for the budget year;
 - (iii) approving measurable performance objectives for revenue from each source and for each vote in the budget;

¹¹² The MFMA s 22(a)-(b).

¹¹³ The MFMA s 23(2)(a)-(b).

¹¹⁴ Read the MFMA s 23(3)-(4).

(iv) approving any changes to the municipality's integrated development plan;
and

(v) approving any changes to the municipality's budget-related policies.¹¹⁵

The accounting officer of a municipality must submit the approved annual budget to the National Treasury and the relevant provincial treasury. If a municipal council fails to approve an annual budget, including revenue-raising measures necessary to give effect to the budget, the council must reconsider the budget and again vote on the budget or on an amended version thereof. This must be done within seven days of the council meeting that failed to approve the budget. The process provided for must be repeated until a budget is approved, including revenue-raising measures necessary to give effect to the budget. If a municipality has not approved an annual budget, including revenue-raising measures necessary to give effect to the budget, by the first day of the budget year, the mayor must immediately comply with section 55 of the MFMA.¹¹⁶

If by the start of the budget year a municipal council has not approved an annual budget or any revenue-raising measures necessary to give effect to the budget, the provincial executive of the relevant province must intervene in the municipality in terms of section 139(4) of the Constitution by taking any appropriate steps to ensure that the budget or those revenue-raising measures are approved, including dissolving the council and

- appointing an administrator until a newly elected council has been declared elected
- continued functioning of the municipality.¹¹⁷

When approving a temporary budget for a municipality, the provincial executive is not bound by any provision relating to the budget process applicable to a municipality in terms of the MFMA or other legislation. Such a budget must, after the intervention has ended, be replaced by a budget approved by the newly elected council, provided that the provisions of the Chapter relating to annual budgets in the MFMA are substantially complied with and are in line with any revised time frames approved by the MEC for finance in the province. Until a new budget for the municipality is

¹¹⁵ Read the MFMA s 24(1)-(3).

¹¹⁶ Read the MFMA s 25(1)-(3). According to s 55, the mayor must send a report to the MEC.

¹¹⁷ See the Municipal Structures Act s 26(1)(a)-(b), read together with ss 34(3) and (4) and 35. The Structures Act applies when a provincial executive dissolves a municipal council.

approved, with the approval of the MEC for finance in the province, funds for the requirements of the municipality may be withdrawn from the municipality's bank accounts in accordance with certain provisions. Such funds may:

- be used only to defray current and capital expenditure in connection with votes for which funds were appropriated in the approved budget for the previous financial year
- may not:
 - (a) during any month, exceed eight per cent of the total amount appropriated in that approved budget for current expenditure, which percentage must be scaled down proportionately if revenue flows are not at least at the same level as the previous financial year
 - (b) exceed the amount actually available.¹¹⁸

Upon becoming aware of any impending non-compliance by the municipality of any provisions of the MFMA or any other legislation pertaining to the tabling or approval of an annual budget or compulsory consultation processes, the mayor of a municipality must inform the MEC for finance in the province, in writing, of such impending non-compliance in an effort to ensure effective control and accountability. If the impending non-compliance pertains to a time provision, except section 16(1), the MEC for finance may, on application by the mayor and on good cause shown, extend any time limit or deadline contained in that provision, provided that no such extension may compromise compliance with section 16(1). An MEC for finance must

- exercise the power contained in the MFMA in accordance with a prescribed framework
- promptly notify the National Treasury, in writing, of any extensions given, together with the name of the municipality concerned and the reasons for the extensions.¹¹⁹

Upon becoming aware of any actual non-compliance by the municipality of any required provisions, the mayor of a municipality must also inform the council, the MEC for finance and the National Treasury, in writing, of

- such non-compliance

¹¹⁸ The funds provided for above are not additional to funds appropriated for the budget year, and any funds so withdrawn must be regarded as forming part of the funds appropriated in a subsequently approved annual budget for the budget year. See the MFMA s 26(3)-(6).

¹¹⁹ See the MFMA s 27(1)-(2).

- any remedial or corrective measures the municipality intends to implement to avoid a recurrence.¹²⁰

It should again be noted that the provincial executive may intervene in terms of section 139 of the Constitution if a municipality cannot or does not comply with the provisions of this chapter, including a provision relating to process.

A municipality may revise an approved annual budget through an adjustments budget. In this regard an adjustments budget:

- (a) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;¹²¹
- (b) may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
- (c) may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
- (d) may authorise the utilisation of projected savings in one vote towards spending under another vote;
- (e) may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;
- (f) may correct any errors in the annual budget; and
- (g) may provide for any other expenditure within a prescribed framework.¹²²

Only the mayor may table an adjustments budget in the municipal council. When an adjustments budget is tabled, it must be accompanied by:

- (a) an explanation how the adjustments budget affects the annual budget;
- (b) a motivation of any material changes to the annual budget;
- (c) an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and

¹²⁰ The MFMA s 27(3)-(4). It should be noted that the non-compliance by a municipality with a provision of the chapter relating to the budget process or a provision in any legislation relating to the approval of a budget-related policy does not affect the validity of an annual or adjustments budget.

¹²¹ A current year refers to the financial year which has already commenced, but not yet ended. See the MFMA s 1.

¹²² The MFMA s 28(1)-(3). An adjustments budget must be in a prescribed form.

(d) any other supporting documentation that may be prescribed.¹²³

It is important to note that municipal tax and tariffs may not be increased during a financial year, except when required in terms of a financial recovery plan.¹²⁴ The mayor of a municipality may in emergency or other exceptional circumstances authorise unforeseeable and unavoidable expenditure for which no provision was made in an approved budget. Any such expenditure:

- (a) must be in accordance with any framework that may be prescribed;
- (b) may not exceed a prescribed percentage of the approved annual budget;
- (c) must be reported by the mayor to the municipal council at its next meeting;
- and
- (d) must be appropriated in an adjustments budget.¹²⁵

The appropriation of funds in an annual or adjustments budget lapses to the extent that those funds are unspent at the end of the financial year to which the budget relates, except in the case of an appropriation for expenditure made for a period longer than that financial year in terms of section 16(3).¹²⁶ It is further also determined that when funds for a capital programme are appropriated in terms of section 16(3) for more than one financial year, expenditure for that programme during a financial year may exceed the amount of that year's appropriation for that programme, provided that:

- (a) the increase does not exceed 20 per cent of that year's appropriation for the programme;
- (b) the increase is funded within the following year's appropriation for that programme;
- (c) the municipal manager certifies that –
 - (i) actual revenue for the financial year is expected to exceed budgeted revenue; and
 - (ii) sufficient funds are available for the increase without incurring further

¹²³ Read the MFMA s 28(5)(a)-(d).

¹²⁴ See the MFMA s 28(6)-(7). Ss 22(b), 23(3) and 24(3) apply in respect of an adjustments budget. "Municipal tax" means property rates or other taxes, levies or duties that a municipality may impose. "Municipal tariff" refers to a tariff for services which a municipality may set for the provision of a service to the local community and includes a surcharge on such tariff. See the MFMA s 1.

¹²⁵ Read the MFMA s 29(1)-(3). If such adjustments budget is not passed within 60 days after the expenditure was incurred, the expenditure is unauthorised and s 32 applies.

¹²⁶ See the MFMA s 30.

- borrowing beyond the annual budget limit;
- (d) prior written approval is obtained from the mayor for the increase; and
- (e) the documents referred to in paragraphs (c) and (d) are submitted to the relevant provincial treasury and the Auditor-General.¹²⁷

Without limiting liability in terms of the common law or other legislation, the MFMA specifically provides for personal accountability and liability over both political office bearers and officials of a municipality that work with financial matters. The MFMA states that:

- a political office-bearer of a municipality is liable for unauthorised expenditure if that office-bearer knowingly or after having been advised by the accounting officer of the municipality that the expenditure is likely to result in unauthorised expenditure, instructed an official of the municipality to incur the expenditure¹²⁸
- the accounting officer is liable for unauthorised expenditure deliberately or negligently incurred by the accounting officer, subject to subsection (3) of the MFMA
- any political office-bearer or official of a municipality who deliberately or negligently committed, made or authorised an irregular expenditure¹²⁹ is liable for that expenditure or

¹²⁷ The MFMA s 31(a)-(e).

¹²⁸ Note that “unauthorised expenditure” means any expenditure incurred by a municipality otherwise than in accordance with s 15 or 11(3) and includes (a) overspending of the total amount appropriated in the municipality’s approved budget, (b) overspending of the total amount appropriated for a vote in the approved budget, (c) expenditure from a vote unrelated to the department or functional area covered by the vote, (d) expenditure of money appropriated for a specific purpose, otherwise than for the specific purpose, (e) spending of an allocation referred to in para (b), (c) or (d) of the definition of “allocation” otherwise than in accordance with any conditions of the allocation, or (f) a grant by the municipality otherwise than in accordance with this Act. “Overspending” is further defined thus: (a) in relation to the budget of a municipality, it means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year’s budget for its operational or capital expenditure, as the case may be, (b) in relation to a vote, it means causing expenditure under the vote to exceed the amount appropriated for that vote or (c) in relation to expenditure under s 26, it means causing expenditure under the section to exceed the limits allowed in ss (5) of that section. See the MFMA s 1.

¹²⁹ “Irregular expenditure” means (a) expenditure incurred by a municipality or municipal entity in contravention of, or not in accordance with, a requirement of this Act, and which has not been condoned in terms of s 170, (b) expenditure incurred by a municipality or municipal entity in contravention of, or not in accordance with, a requirement of the Municipal Systems Act and which has not been condoned in terms of that Act, (c) expenditure incurred by a municipality in contravention of, or not in accordance with, a requirement of the Public Office-Bearers Act 20 of 1998 or (d) expenditure incurred by a municipality or municipal entity in contravention of, or not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality’s by-laws giving effect to such policy and not condoned in terms of such policy or by-law. Irregular expenditure excludes expenditure by a municipality which falls within the definition of “unauthorised expenditure”. See the MFMA s 1.

- any political office-bearer or official of a municipality who deliberately or negligently made or authorised a fruitless and wasteful expenditure is liable for that expenditure.¹³⁰

A municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure

(a) in the case of unauthorised expenditure, is –

- (i) authorised in an adjustments budget; or
- (ii) certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council; and

(b) in the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by the council.

If the accounting officer becomes aware that the council, the mayor or the executive committee of the municipality, as the case may be, has taken a decision which, if implemented, is likely to result in unauthorised, irregular or fruitless and wasteful expenditure, the accounting officer is not liable for any ensuing unauthorised, irregular or fruitless and wasteful expenditure provided that the accounting officer has informed the council, the mayor or the executive committee, in writing, that the expenditure is likely to be unauthorised, irregular or fruitless and a wasteful expenditure.¹³¹ The accounting officer must further promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of:

- (a) any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality;
- (b) whether any person is responsible or under investigation for such unauthorised, irregular or fruitless and wasteful expenditure; and
- (c) the steps that have been taken –
 - (i) to recover or rectify such expenditure; and
 - (ii) to prevent a recurrence of such expenditure.¹³²

¹³⁰ The MFMA s 32(1)(a)-(d). “Fruitless and wasteful expenditure” means expenditure that was made in vain and would have been avoided had reasonable care been exercised. See the MFMA s 1.

¹³¹ See the MFMA s 32(2)-(3).

¹³² The MFMA s 32(4)(a)-(c).

It should be noted that the writing off of any unauthorised, irregular or fruitless and wasteful expenditure as irrecoverable is no excuse in criminal or disciplinary proceedings against a person charged with the commission of an offence or a breach of the MFMA relating to such unauthorised, irregular or fruitless and wasteful expenditure. The accounting officer is further obligated to report to the South African Police Service all cases of alleged

- irregular expenditure that constitutes a criminal offence
- theft and fraud that occurred in the municipality.

The council of a municipality must take all *reasonable steps* to ensure that all cases of irregular expenditure, theft or fraud are reported to the South African Police Service if

- the charge is against the accounting officer or
- the accounting officer fails to report such matters.¹³³

Under the new financial requirements, a municipality may enter into a contract which will impose financial obligations on the municipality beyond a financial year, but if the contract will impose financial obligations on the municipality beyond the three years covered in the annual budget for that financial year, it may do so only if:

- (a) the municipal manager, at least 60 days before the meeting of the municipal council at which the contract is to be approved –
 - (i) has, in accordance with section 21A of the Municipal Systems Act:
 - (aa) made public the draft contract and an information statement summarising the municipality's obligations in terms of the proposed contract; and
 - (bb) invited the local community and other interested persons to submit to the municipality comments or representations in respect of the proposed contract; and
 - (ii) has solicited the views and recommendations of:
 - (aa) the National Treasury and the relevant provincial treasury;
 - (bb) the national department responsible for local government; and
 - (cc) if the contract involves the provision of water, sanitation, electricity, or any other service as may be prescribed, the responsible national de

¹³³ The MFMA s 32(5)-(8). The minister, acting with the concurrence of the cabinet member responsible for local government, may regulate the application of these provisions by regulation. Read also the MFMA s 168.

partment;

(b) the municipal council has taken into account:

- (i) the municipality's projected financial obligations in terms of the proposed contract for each financial year covered by the contract;
- (ii) the impact of those financial obligations on the municipality's future municipal tariffs and revenue;
- (iii) any comments or representations on the proposed contract received from the local community and other interested persons; and
- (iv) any written views and recommendations on the proposed contract by the National Treasury, the relevant provincial treasury, the national department responsible for local government and any national department referred to in paragraph (a) (ii) (cc); and

(c) the municipal council has adopted a resolution in which:

- (i) it determines that the municipality will secure a significant capital investment or will derive a significant financial economic or financial benefit from the contract;
- (ii) it approves the entire contract exactly as it is to be executed; and
- (iii) it authorises the municipal manager to sign the contract on behalf of the municipality.¹³⁴

The process set out in subsection 33(1) of the MFMA does not apply to:

- (a) contracts for long-term debt regulated in terms of section 46(3) of the MFMA;
- (b) employment contracts; or
- (c) contracts:
 - (i) for categories of goods as may be prescribed; or
 - (ii) in terms of which the financial obligation on the municipality is below:
 - (aa) a prescribed value; or
 - (bb) a prescribed percentage of the municipality's approved budget for the year in which the contract is concluded.¹³⁵

All contracts referred to above and all other contracts that impose a financial obligation on a municipality:

- must be made available in their entirety to the municipal council and

¹³⁴ Refer to the MFMA s 33(1)(a)-(c).

¹³⁵ See the MFMA s 33(2).

- may not be withheld from public scrutiny, except as provided for in terms of the Promotion of Access to Information Act.¹³⁶

(d) Aspects concerning municipal financial co-operative government

It is a constitutional prerequisite that the national and provincial governments must by agreement assist municipalities in building their capacities for efficient, effective and transparent financial management. The national and provincial governments must support the efforts of municipalities to identify and resolve their financial problems. When performing its monitoring function in terms of section 155(6) of the Constitution, a provincial government:

- (a) must share with a municipality the results of its monitoring to the extent that those results may assist the municipality in improving its financial management;
- (b) must, upon detecting any emerging or impending financial problems in a municipality, alert the municipality to those problems; and
- (c) may assist the municipality to avert or resolve financial problems.¹³⁷

In an effort to promote co-operative government on a local government level, both national and provincial departments and public entities must:

- (a) in their fiscal and financial relations with the local sphere of government, promote co-operative government in accordance with chapter 3 of the Constitution;
- (b) promptly meet their financial commitments towards municipalities;
- (c) provide timely information and assistance to municipalities to enable municipalities:
 - (i) to plan properly, including in developing and revising their integrated development plans; and
 - (ii) to prepare their budgets in accordance with the processes set out in chapter 4 of this Act; and
- (d) comply with the Public Finance Management Act, the annual Division of Revenue Act and the Intergovernmental Fiscal Relations Act,¹³⁸ to the extent

¹³⁶ See Act 2 of 2000 read together with the MFMA s 33(3)-(4).

¹³⁷ See the MFMA s 34(1)-(4). Non-compliance with this section or any other provision of this Act by the national or a provincial government does not affect the responsibility of a municipality, its political structures, political office-bearers and officials to comply with this Act.

¹³⁸ 97 of 1997.

that those acts regulate intergovernmental relations with the local sphere of government.¹³⁹

In order to provide predictability and certainty about the sources and levels of intergovernmental funding for municipalities, the accounting officer of a national or provincial department and the accounting authority of a national or provincial public entity responsible for the transfer of any proposed allocations to a municipality must, by no later than 20 January of each year notify the National Treasury or the relevant provincial treasury, as may be appropriate, of all proposed allocations, and the projected amounts of those allocations, to be transferred to each municipality during each of the next three financial years. The minister or the MEC responsible for finance in a province must, to the extent possible when tabling the national annual budget in the National Assembly or the provincial annual budget in the provincial legislature, make public particulars of any allocations due to each municipality in terms of that budget, including the amount to be transferred to the municipality during each of the next three financial years.¹⁴⁰

Municipalities are themselves also required to promote co-operative government. In doing so, municipalities are obligated to:

- promote co-operative government in accordance with chapter 3 of the Constitution and the Intergovernmental Fiscal Relations Act in their fiscal and financial relations with the national and provincial spheres of government and other municipalities
- provide budgetary and other financial information to relevant municipalities and national and provincial organs of state
- promptly meet all financial commitments towards other municipalities or national and provincial organs of state.

In order to enable municipalities to include allocations from other municipalities in their budgets and to plan effectively for the spending of such allocations, the accounting officer of a municipality responsible for the transfer of any allocation to another municipality must notify the receiving municipality of the projected amount of any allocation proposed to be transferred to that municipality during each of the next

¹³⁹ Read the MFMA s 35(a)-(d).

¹⁴⁰ Refer to the MFMA s 36(1)-(2).

three financial years, by no later than 120 days before the start of its budget year.¹⁴¹ In certain instances the transfer of funds to municipalities may be stopped. In this regard the MFMA determines that the National Treasury may stop:

- the transfer of funds due to a municipality as its share of the local government's equitable share referred to in section 214(1)(a) of the Constitution, but only if the municipality commits a serious or persistent breach of the measures established in terms of section 216(1) of the Constitution or
- the transfer of funds due to a municipality as an allocation referred to in section 214(1)(c) of the Constitution, but only if the municipality or the municipal entity for which the funds are destined
 - (a) commits a serious or persistent breach of the measures established in terms of section 216(1) of the Constitution or
 - (b) breaches or fails to comply with any conditions subject to which the allocation is made.

Before the National Treasury stops the transfer of funds to a municipality, it must:

- (a) give the municipality an opportunity to submit written representations with regard to the proposed stopping of the funds;
- (b) inform the MEC for local government in the province; and
- (c) consult the Cabinet member responsible for the national department making the transfer.¹⁴²

If the stopping of funds affects the provision of basic municipal services in the municipality, the provincial executive must monitor the continuation of those services. Section 139 of the Constitution applies if the municipality cannot or does not fulfil its obligations with regard to the provision of those services. When considering whether to stop the transfer of funds to a municipality, the National Treasury must take into account all relevant facts, including:

- (a) the municipality's compliance with the requirements of this act, in particular those relating to:
 - (i) annual financial statements, including the submission to the Auditor-General of its annual financial statements; and

¹⁴¹ See the MFMA s 37(1)-(2).

¹⁴² See the MFMA s 38(1)-(2).

(ii) budgets, including the submission of information on the budget and implementation of the budget to the National Treasury and the relevant provincial treasury; and

(b) the municipality's co-operation with other municipalities on fiscal and financial matters, in the case of district and local municipalities.¹⁴³

A decision by the National Treasury to stop the transfer to a municipality of funds

- lapses after the expiry of 120 days
- may be enforced immediately, but will lapse retrospectively unless Parliament approves it following a process substantially the same as that established in terms of section 75 of the Constitution.

Such a procedure should be prescribed by the joint rules and orders of Parliament. This process must be completed within 30 days of the decision by the National Treasury to stop the transfer of the funds.¹⁴⁴

Parliament may further renew a decision to stop the transfer of funds for no more than 120 days at a time, following the process established in terms of subsection 39(1)(b) of the MFMA. Before Parliament approves or renews a decision to stop the transfer of funds to a municipality, the Auditor-General must report to Parliament, if requested to do so by Parliament, and the municipality must be given an opportunity to answer the allegations against it and to state its case before a committee.¹⁴⁵ If the transfer of funds to a municipality has been stopped in terms of section 38(1)(b) for the rest of the relevant financial year, then the accounting officer of the national or provincial department responsible for the transfer must reflect such stopping of funds, together with reasons, in the annual financial statements of the department.¹⁴⁶

The National Treasury is further obligated to monitor:

- the pricing structure of organs of state for the supply of electricity, water or any other bulk resources that may be prescribed, to municipalities and municipal entities for the provision of municipal services and
- payments made by municipalities and municipal entities for such bulk resources.¹⁴⁷

¹⁴³ Read the MFMA s 38(3)-(4).

¹⁴⁴ The MFMA s 39(1)(a)-(b).

¹⁴⁵ Read the MFMA s 39(2)-(3).

¹⁴⁶ The MFMA s 40.

¹⁴⁷ Refer to the MFMA s 41(1).

Each organ of state providing such bulk resources to a municipality must within 15 days after the end of each month furnish the National Treasury with a written statement setting out, for each municipality or for each municipal entity providing municipal services on behalf of such municipalities, the following information:

- the amount to be paid by the municipality or municipal entity for such bulk resources for that month, and for the financial year up to the end of that month
- the arrears owing and the age profile of such arrears and
- any actions taken by that organ of state to recover arrears.¹⁴⁸

In relation to price increases of bulk resources for the provision of municipal services, it is stated that if a national or provincial organ of state which supplies water, electricity or any other bulk resource as may be prescribed to a municipality or municipal entity for the provision of a municipal service intends to increase the price of such resource for the municipality or municipal entity, it must first submit the proposed amendment to its pricing structure to its executive authority within the meaning of the Public Finance Management Act and secondly to any regulatory agency for approval, if national legislation requires such approval.¹⁴⁹ At least 40 days before making a submission, the organ of state referred to above must request the National Treasury and organised local government to provide written comments on the proposed amendment. Any submission must also be accompanied by:

- a motivation of the reasons for the proposed amendment
- an explanation of how the amendment takes account of
 - (a) the national government's inflation targets and other macroeconomic policy objectives
 - (b) steps taken by the organ of state to improve its competitiveness or efficiency in order to reduce costs
 - (c) any objectives or targets as outlined in any corporate or other governance plan applicable to that organ of state
- any written comments received from the National Treasury, organised local government or any municipalities and
- an explanation of how such comments have been taken into account.¹⁵⁰

¹⁴⁸ See the MFMA s 41(1)-(2).

¹⁴⁹ See the MFMA s 42(1)(a)-(b).

¹⁵⁰ Read the MFMA s 42(3)(a)-(d).

The executive authority of the organ of state must table the amendment and the documents referred to above either in Parliament or the relevant provincial legislature, as may be appropriate. Unless approved otherwise by the Minister, an amendment to a pricing structure which is tabled in Parliament or the relevant provincial legislature on or before 15 March in any year does not take effect for the affected municipalities or municipal entities before 1 July in that year or after 15 March in any year, does not take effect for the affected municipalities or municipal entities before 1 July the next year.¹⁵¹

If a national or provincial organ of state in terms of a power contained in any national or provincial legislation determines the upper limits of a municipal tax or tariff, such determination takes effect for municipalities on a date specified in the determination. Unless the minister approves otherwise on good grounds, the date specified in a determination referred to above may:

- (a) if the determination was promulgated on or before 15 March in a year, not be a date before 1 July in that year; or
- (b) if the determination was promulgated after 15 March in a year, not be a date before 1 July in the next year.¹⁵²

If a municipality has in accordance with section 33 or 46(3) of the MFMA entered into a contract which provides for an annual or other periodic escalation of payments to be made by the municipality under the contract, no determination in terms of a power referred to in subsection 43(1) of the MFMA regarding the upper limits of a municipal tax or tariff applies to that municipality insofar as such upper limits would impair the municipality's ability to meet the escalation of its payments under the contract.

Whenever a dispute of a financial nature arises between organs of state, the parties concerned must as promptly as possible take all reasonable steps that may be necessary to resolve the matter out of court. If the National Treasury is not a party to the dispute, the parties must report the matter to the National Treasury and may request the National Treasury to mediate between the parties or to designate a per-

¹⁵¹ See the MFMA s 42(5)(a)-(b).

¹⁵² See the MFMA s 43(1)-(2).

son to mediate between them. If the National Treasury accedes to a request, it may determine the mediation process.¹⁵³

(e) Aspects concerning municipal debt

A municipality may incur short-term debt only in accordance with and subject to the provisions of the MFMA and only when necessary to bridge shortfalls within a financial year during which the debt is incurred. Such debt may be incurred only in expectation of specific and realistic anticipated income to be received within that financial year or capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments.¹⁵⁴ Furthermore, a municipality may incur short-term debt only if a resolution of the municipal council, signed by the mayor, has approved the debt agreement and the accounting officer has signed the agreement or other document which creates or acknowledges the debt. For the purpose of obtaining a resolution to incur short term debt, a municipal council may:

- (a) approve a short-term debt transaction individually; or
- (b) approve an agreement with a lender for a short-term credit facility to be accessed as and when required, including a line of credit or bank overdraft facility, provided that—
 - (i) the credit limit must be specified in the resolution of the council;
 - (ii) the terms of the agreement, including the credit limit, may be changed only by a resolution of the council; and
 - (iii) if the council approves a credit facility that is limited to emergency use, the accounting officer must notify the council in writing as soon as practical of the amount, duration and cost of any debt incurred in terms of such a credit facility, as well as options for repaying such debt.¹⁵⁵

A municipality must pay off short-term debt within the financial year and may not renew or refinance short-term debt, whether its own debt or that of any other entity, where such renewal or refinancing will have the effect of extending the short-term debt into a new financial year. No lender may wilfully extend credit to a municipality

¹⁵³ See the MFMA s 44(1)-(4). These provisions apply only if at least one of the organs of state is a municipality or municipal entity. Refer again to the principles of co-operative government set out in the Constitution s 41.

¹⁵⁴ Read the MFMA s 45(1)(a)-(b). "Short-term debt" means debt payable over a period not exceeding one year. See the MFMA s 1.

¹⁵⁵ See the MFMA s 45(2)-(3).

for the purpose of renewing or refinancing short-term debt that must be paid off. If a lender wilfully extends credit to a municipality in contravention of the abovementioned provision, then the municipality is not bound to repay the loan or interest on the loan.¹⁵⁶

With reference to long-term debt,¹⁵⁷ a municipality may incur such debt only in accordance with and subject to any applicable provisions of the MFMA, including section 19. Such debt may be incurred only for the purpose of:

- (a) capital expenditure on property, plant or equipment to be used for the purpose of achieving the objects of local government as set out in section 152 of the Constitution, including costs referred to in subsection 46(4); or
- (b) re-financing existing long-term debt subject to subsection 46(5). A municipality may incur long-term debt only if a resolution of the municipal council, signed by the mayor, has approved the debt agreement and the accounting officer has signed the agreement or other document which creates or acknowledges the debt.¹⁵⁸

Furthermore, a municipality may incur long-term debt only if the accounting officer of the municipality:

- (a) has, in accordance with section 21A of the Municipal Systems Act:
 - (i) at least 21 days prior to the meeting of the council at which approval for the debt is to be considered, made public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided; and
 - (ii) invited the public, the National Treasury and the relevant provincial treasury to submit written comments or representations to the council in respect of the proposed debt; and

¹⁵⁶ See the MFMA s 45(4)-(6). It should be noted that the non-repayment of a loan to a lender does not apply if the lender (a) relied in good faith on written representations of the municipality regarding purpose of the borrowing, and (b) did not know and had no reason to believe that the borrowing was for the purpose of renewing or refinancing short-term debt. A "lender" in relation to a municipality, means a person who provides debt finance to a municipality. Refer to s 1 definitions.

¹⁵⁷ "Long-term debt" means debt repayable over a period exceeding one year. See the MFMA s 1.

¹⁵⁸ See the MFMA s 46(1)-(2). Note that debt means (a) a monetary liability or obligation created by a financing agreement, note, debenture, bond or overdraft, or by the issuance of municipal debt instruments or (b) a contingent liability such as that created by guaranteeing a monetary liability or obligation of another. See the MFMA s 1.

- (b) has submitted a copy of the information statement to the municipal council at least 21 days prior to the meeting of the council, together with particulars of-
- (i) the essential repayment terms, including the anticipated debt repayment schedule; and
 - (ii) the anticipated total cost in connection with such debt over the repayment period.¹⁵⁹

Capital expenditure contemplated in subsection 46(1)(a) may include:

- financing costs, including
 - (a) capitalised interest for a reasonable initial period
 - (b) costs associated with security arrangements in accordance with section 48 of the MFMA
 - (c) discounts and fees in connection with the financing
 - (d) fees for legal, financial, advisory, trustee, credit rating and other services directly connected to the financing and
 - (e) costs connected to the sale or placement of debt, and costs for printing and publication directly connected to the financing
- costs of professional services directly related to the capital expenditure and
- such other costs as may be prescribed.¹⁶⁰

Municipalities are further allowed to borrow money for the purpose of re-financing existing long-term debt, provided that:

- the existing long-term debt was lawfully incurred
- the re-financing does not extend the term of the debt beyond the useful life of the property, plant or equipment for which the money was originally borrowed
- the net present value of projected future payments (including principal and interest payments) after re-financing is less than the net present value of projected future payments before re-financing and
- the discount rate used in projecting net present value referred to above, and any assumptions in connection with the calculations, must be reasonable and in accordance with criteria set out in a framework that may be prescribed.¹⁶¹

¹⁵⁹ Read the MFMA s 46(2).

¹⁶⁰ Read the MFMA s 46(3)-(4).

¹⁶¹ Note that a municipality's long-term debt must be consistent with its capital budget referred to in s 17(2). Read the MFMA s 46(5)-(6).

Both short-term and long-term debt may be incurred only if the debt is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency and section 48(3) of the MFMA has been complied with, if security is to be provided by the municipality. With reference to security of debt, the MFMA provides that a municipality may, by resolution of its council, provide security for:

- (a) any of its debt obligations;
- (b) any debt obligations of a municipal entity under its sole control; or
- (c) contractual obligations of the municipality undertaken in connection with capital expenditure by other persons on property, plant or equipment to be used by the municipality or such other person for the purpose of achieving the objects of local government in terms of section 152 of the Constitution.¹⁶²

A municipality may provide any appropriate security, including by:

- (a) giving a lien on, or pledging, mortgaging, ceding or otherwise hypothecating, an asset or right, or giving any other form of collateral;
- (b) undertaking to effect payment directly from money or sources that may become available and to authorise the lender or investor direct access to such sources to ensure payment of the secured debt or the performance of the secured obligations, but this form of security may not affect compliance with section 8(2) of the MFMA;
- (c) undertaking to deposit funds with the lender, investor or third party as security;
- (d) agreeing to specific payment mechanisms or procedures to ensure exclusive or dedicated payment to lenders or investors, including revenue intercepts, payments into dedicated accounts or other payment mechanisms or procedures;
- (e) ceding as security any category of revenue or rights to future revenue;
- (f) undertaking to have disputes resolved through mediation, arbitration or other dispute resolution mechanisms;
- (g) undertaking to retain revenues or specific municipal tariffs or other charges, fees or funds at a particular level or at a level sufficient to meet its financial obligations;

¹⁶² Refer to the MFMA ss 47 and 48(1)(a)-(c).

- (h) undertaking to make provision in its budgets for the payment of its financial obligations, including capital and interest;
- (i) agreeing to restrictions on debt that the municipality may incur in future until the secured debt is settled or the secured obligations are met; and
- (j) agreeing to such other arrangements as the municipality may consider necessary and prudent.¹⁶³

A council resolution authorising the provision of security must determine whether the asset or right with respect to which the security is provided is necessary for providing the minimum level of basic municipal services and, if so, must indicate the manner in which the availability of the asset or right for the provision of that minimum level of basic municipal services will be protected. If the resolution has determined that the asset or right is necessary for providing the minimum level of basic municipal services, neither the party to whom the municipal security is provided nor any successor or assignee of such party may deal with the asset or right in a manner that would preclude or impede the continuation of that minimum level of basic municipal services in the event of a default by the municipality.¹⁶⁴

When interacting with a prospective lender or when preparing documentation for consideration by a prospective investor, any person involved in the borrowing of money by a municipality must disclose all information in that person's possession or within that person's knowledge that may be material to the decision of that prospective lender or investor and take reasonable care to ensure the accuracy of any information disclosed. Any lender or investor may rely on written representations of the municipality signed by the accounting officer, if the lender or investor did not know and had no reason to believe that those representations were false or misleading.¹⁶⁵

With reference to municipal guarantees, a municipality may not issue any guarantee for any commitment or debt of any organ of state or person, except on the following conditions:

- (a) The guarantee must be within limits specified in the municipality's approved budget;
- (b) a municipality may guarantee the debt of a municipal entity under its sole

¹⁶³ See the MFMA s 48(2)(a)-(j).

¹⁶⁴ See the MFMA s 48(3)-(4) and also s 48(5) of the Act.

¹⁶⁵ The MFMA s 49(1)-(2).

control only if the guarantee is authorised by the council in the same manner and subject to the same conditions applicable to a municipality in terms of this chapter if it incurs debt;

- (c) a municipality may guarantee the debt of a municipal entity under its shared control or of any other person, but only with the approval of the National Treasury, and then only if (i) the municipality creates, and maintains for the duration of the guarantee, a cash-backed reserve equal to its total potential financial exposure as a result of such guarantee; or (ii) the municipality purchases and maintains in effect for the duration of the guarantee, a policy of insurance issued by a registered insurer, which covers the full amount of the municipality's potential financial exposure as a result of such guarantee.¹⁶⁶

(f) Responsibilities of mayors under the MFMA

Under the new financial legislative framework, the mayor of a municipality must provide general political guidance over the fiscal and financial affairs of the municipality. In providing such general political guidance, the mayor may monitor and, to the extent provided in the MFMA, oversee the exercise of responsibilities assigned in terms of the Act to the accounting officer and the chief financial officer, but may not interfere in the exercise of those responsibilities. The mayor must take all reasonable steps to ensure that the municipality performs its constitutional and statutory functions within the limits of the municipality's approved budget and must, within 30 days of the end of each quarter, submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality. Finally, all mayors must exercise the other powers and perform the other duties assigned to them in terms of the MFMA or delegated by the council to them.¹⁶⁷

With regard to the budget processes and other related matters the mayor must do the following:

- (a) provide general political guidance over the budget process and the priorities that must guide the preparation of a budget;
- (b) co-ordinate the annual revision of the integrated development plan in terms of section 34 of the Municipal Systems Act and the preparation of the annual

¹⁶⁶ Read the MFMA s 50(a)-(c). Note that neither the national nor a provincial government may guarantee the debt of a municipality or municipal entity except to the extent that the Public Finance Management Act ch 8 provides for such guarantees. See the MFMA s 51.

¹⁶⁷ See the MFMA s 52(a)-(e).

budget, and determine how the integrated development plan is to be taken into account or revised for the purposes of the budget; and

(c) take all reasonable steps to ensure:

- (i) that the municipality approves its annual budget before the start of the budget year;
- (ii) that the municipality's service delivery and budget implementation plan is approved by the mayor within 28 days after the approval of the budget; and
- (iii) that the annual performance agreements as required in terms of section 57(1)(b) of the Municipal Systems Act for the municipal manager and all senior managers:
 - (aa) comply with this act in order to promote sound financial management;
 - (bb) are linked to the measurable performance objectives approved with the budget and to the service delivery and budget implementation plan; and
 - (cc) are concluded in accordance with section 57(2) of the Municipal Systems Act.¹⁶⁸

The mayor must further promptly report to the municipal council and the MEC for finance in the province any delay in the tabling of an annual budget, the approval of the service delivery and budget implementation plan or the signing of the annual performance agreements. He/she must also ensure that the revenue and expenditure projections for each month and the service delivery targets and performance indicators for each quarter, as set out in the service delivery and budget implementation plan, are made public no later than 14 days after the approval of the service delivery and budget implementation plan and that the performance agreements of the municipal manager, senior managers and any other categories of officials as may be prescribed are made public no later than 14 days after the approval of the municipality's service delivery and budget implementation plan. Copies of such performance agreements must be submitted to the council and the MEC for local government in the province.¹⁶⁹

On receipt of a statement or report submitted by the accounting officer of the municipality in terms of sections 71 or 72 of the MFMA, the mayor must:

¹⁶⁸ See the MFMA s 53(1)(a)-(c).

¹⁶⁹ The MFMA s 53(2)-(3).

- (a) consider the statement or report;
- (b) check whether the municipality's approved budget is implemented in accordance with the service delivery and budget implementation plan;
- (c) consider and, if necessary, make any revisions to the service delivery and budget implementation plan, provided that revisions to the service delivery targets and performance indicators in the plan may only be made with the approval of the council following approval of an adjustments budget;
- (d) issue any appropriate instructions to the accounting officer to ensure:
 - (i) that the budget is implemented in accordance with the service delivery and budget implementation plan; and
 - (ii) that spending of funds and revenue collection proceed in accordance with the budget;
- (e) identify any financial problems facing the municipality, including any emerging or impending financial problems; and
- (f) in the case of a section 72 report, submit the report to the council by 31 January of each year.¹⁷⁰

If the municipality faces any serious financial problems, the mayor must

- promptly respond to and initiate any remedial or corrective steps proposed by the accounting officer to deal with such problems, which may include
 - (a) steps to reduce spending when revenue is anticipated to be less than projected in the municipality's approved budget;
 - (b) the tabling of an adjustments budget
 - (c) steps in terms of chapter 13 of the MFMA
- alert the council and the MEC for local government in the province to those problems.

The mayor must ensure that any revisions of the service delivery and budget implementation plan are made public promptly.¹⁷¹

If a municipality has not approved an annual budget by the first day of the budget year or if the municipality encounters a serious financial problem referred to in section 136 of the MFMA, then the mayor of the municipality

¹⁷⁰ See the MFMA s 54(1)(a)-(f).

¹⁷¹ See the MFMA s 54(2)-(3).

- must immediately report the matter to the MEC for local government in the province
- may recommend to the MEC an appropriate provincial intervention in terms of section 139 of the Constitution.¹⁷²

It is further provided that the mayor of a municipality which has sole or shared control over a municipal entity must guide the municipality in exercising its rights and powers over the municipal entity in a way:

- that would reasonably ensure that the municipal entity complies with this act and at all times remains accountable to the municipality and
- that would not impede the entity from performing its operational responsibilities.

In guiding the municipality in the exercise of its rights and powers over a municipal entity, the mayor may monitor the operational functions of the entity, but may not interfere in the performance of those functions.¹⁷³ The council of a municipality which does not have a mayor must designate a councillor to exercise the powers and duties assigned by the MFMA to a mayor. In the case of a municipality which does not have a mayor, a reference in the MFMA to the mayor of a municipality must be construed as a reference to a councillor designated by the council of the municipality to bear the specific responsibilities.¹⁷⁴ In the case of a municipality which has an executive committee, the powers and functions assigned by the MFMA to a mayor must be exercised by the mayor in consultation with the executive committee.¹⁷⁵

The powers and duties assigned in terms of the MFMA to the mayor of a municipality may be delegated by:

- the executive mayor in terms of section 60(1) of that Act to another member of the municipality's mayoral committee in the case of a municipality which has an executive mayor referred to in section 55 of the Municipal Structures Act
- the council of the municipality to another member of the executive committee in the case of a municipality which has an executive committee referred to in section 43 of the Structures Act or

¹⁷² Read the MFMA s 55.

¹⁷³ Refer to the MFMA s 56(1)-(2).

¹⁷⁴ The MFMA s 57(1)-(2).

¹⁷⁵ The MFMA s 58. It is submitted that "in consultation with" means that the executive committee must be consulted on the matter and that the parties have followed a specified decision-making process. See also Rautenbach and Malherbe (1999) 214-216.

- the council to any other councillor in the case of a municipality which has designated a councilor in terms of section 57(1) of the MFMA.¹⁷⁶

Any delegation mentioned above:

- must be in writing;
- is subject to any limitations or conditions that the executive mayor or council, as the case may be, may impose; and
- does not divest the mayor of the responsibility concerning the exercise of the delegated power or the performance of the delegated duty.

Finally, the mayor may confirm, vary or revoke any decision taken in consequence of a delegation in terms of this section, but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.¹⁷⁷

(g) General responsibilities of municipal officials

According to the MFMA, the municipal manager of a municipality is the accounting officer of the municipality for the purposes of the Act and, as accounting officer, must exercise the functions and powers assigned to an accounting officer in terms of the Act and provide guidance and advice on compliance with the Act to

- the political structures, political office-bearers and officials of the municipality¹⁷⁸
- any municipal entity under the sole or shared control of the municipality.¹⁷⁹

The accounting officer of a municipality is obligated to comply with certain fiduciary responsibilities. In this regard the officer must:

- act with fidelity, honesty, integrity and in the best interests of the municipality in managing its financial affairs
- disclose to the municipal council and the mayor all material facts which are available to the accounting officer or reasonably discoverable and which in any way might influence the decisions or actions of the council or the mayor and
- seek, within the sphere of influence of the accounting officer, to prevent any

¹⁷⁶ See the MFMA s 59(1)(a)-(c).

¹⁷⁷ Read the MFMA s 59(2)-(3).

¹⁷⁸ An official in relation to a municipality or municipal entity means (a) an employee of a municipality or municipal entity, (b) a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity or (c) a person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee. See the MFMA s 1. Political structures again refer to (a) the council of a municipality or (b) any committee or other collective structure of a municipality elected, designated or appointed in terms of a specific provision of the Municipal Structures Act.

¹⁷⁹ The MFMA s 60.

prejudice to the financial interests of the municipality.¹⁸⁰

An accounting officer may not act in a way that is inconsistent with the duties assigned to accounting officers of municipalities in terms of the MFMA or use the position or privileges of, or confidential information obtained as, accounting officer for personal gain or to improperly benefit another person.¹⁸¹ The accounting officer of a municipality is further also responsible for managing the financial administration of the municipality and must, for this purpose, take all reasonable steps to ensure that:

- the resources of the municipality are used effectively, efficiently and economically
- full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards
- the municipality has and maintains effective, efficient and transparent systems:
 - (a) of financial and risk management and internal control and
 - (b) of internal audit operating in accordance with any prescribed norms and standards
- unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented
- disciplinary or, when appropriate, criminal proceedings are instituted against any official of the municipality who has allegedly committed an act of financial misconduct or an offence in terms of chapter 15 of the MFMA and
- the municipality has and implements:
 - (a) a tariff policy referred to in section 74 of the Municipal Systems Act
 - (b) a rates policy as may be required in terms of any applicable national legislation
 - (c) a credit control and debt collection policy referred to in section 96(b) of the Municipal Systems Act and
 - (d) a supply chain management policy in accordance with chapter 11 of the MFMA.

The accounting officer is responsible for and must account for all bank accounts of the municipality, including any bank account opened for:

- any relief fund, charitable fund, trust or other fund set up by the municipality in terms of section 12 of the MFMA or

¹⁸⁰ Refer to the MFMA s 61(1).

¹⁸¹ See the MFMA s 61(2)(a)-(b).

- a purpose referred to in section 48(2)(d) of the Act.¹⁸²

In respect of asset and liability management the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets and the liabilities of the municipality. The accounting officer must for the purposes of these responsibilities take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality; that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice and that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.¹⁸³

The accounting officer of a municipality is responsible also for the management of the revenue of the municipality. For the purposes of revenue management, the accounting officer must take all reasonable steps to ensure the following:

- (a) that the municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy;
- (b) that revenue due to the municipality is calculated on a monthly basis;
- (c) that accounts for municipal tax and charges for municipal services are prepared on a monthly basis, or less often as may be prescribed where monthly accounts are uneconomical;
- (d) that all money received is promptly deposited in accordance with this act into the municipality's primary and other bank accounts;
- (e) that the municipality has and maintains a management, accounting and information system which:
 - (i) recognises revenue when it is earned;
 - (ii) accounts for debtors; and
 - (iii) accounts for receipts of revenue;
- (f) that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed;

¹⁸² See the MFMA s 62(1)-(2).

¹⁸³ Read the MFMA s 63(1)-(2).

- (g) that the municipality charges interest on arrears, except where the council has granted exemptions in accordance with its budget-related policies and within a prescribed framework; and
- (h) that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis.¹⁸⁴

The accounting officer must immediately inform the National Treasury of any payments due by an organ of state to the municipality in respect of municipal tax or for municipal services, if such payments are regularly in arrears for periods of more than 30 days. The accounting officer must also take all reasonable steps to ensure that any funds collected by the municipality on behalf of another organ of state is transferred to that organ of state on at least a weekly basis and that such funds are not used for purposes of the municipality.¹⁸⁵

The accounting officer of a municipality is also responsible for the management of the expenditure of the municipality. The accounting officer must for such purposes take all reasonable steps to ensure:

- (a) that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds;
- (b) that the municipality has and maintains a management, accounting and information system which:
 - (i) recognises expenditure when it is incurred;
 - (ii) accounts for creditors of the municipality;¹⁸⁶ and
 - (iii) accounts for payments made by the municipality;
- (c) that the municipality has and maintains a system of internal control in respect of creditors and payments;
- (d) that payments by the municipality are made:
 - (i) directly to the person to whom it is due unless agreed otherwise for reasons as may be prescribed; and

¹⁸⁴ See the MFMA s 64(1)(a)-(h).

¹⁸⁵ The MFMA s 64(3)-(4).

¹⁸⁶ In relation to a municipality, "creditor" means a person to whom money is owing by the municipality. See the MFMA s 1.

- (ii) either electronically or by way of non-transferable cheques, provided that cash payments and payments by way of cash cheques may be made for exceptional reasons only, and only up to a prescribed limit;
- (e) that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure;
- (f) that the municipality complies with its tax, levy, duty, pension, medical aid, audit fees and other statutory commitments;
- (g) that any dispute concerning payments due by the municipality to another organ of state is disposed of in terms of legislation regulating disputes between organs of state;
- (h) that the municipality's available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework;
- (i) that the municipality's supply chain management policy referred to in section 111 of the MFMA is implemented in a way that is fair, equitable, transparent, competitive and cost-effective; and
- (j) that all financial accounts of the municipality are closed at the end of each month and reconciled with its records.¹⁸⁷

In a format and for periods as may be prescribed, the accounting officer of a municipality must report to the council on all expenditure incurred by the municipality on staff salaries, wages, allowances and benefits, and in a manner that discloses such expenditure per type of expenditure, namely:

- salaries and wages
- contributions for pensions and medical aid
- travel, motor car, accommodation, subsistence and other allowances
- housing benefits and allowances
- overtime payments
- loans and advances and
- any other type of benefit or allowance related to staff.¹⁸⁸

¹⁸⁷ See the MFMA s 65(1)-(2).

¹⁸⁸ The MFMA s 66(a)-(g).

Before transferring funds of the municipality to an organisation or body outside any sphere of government otherwise than in compliance with a commercial or other business transaction, the accounting officer must be satisfied that the organisation or body:

- (a) has the capacity and has agreed:
 - (i) to comply with any agreement with the municipality;
 - (ii) for the period of the agreement to comply with all reporting, financial management and auditing requirements as may be stipulated in the agreement;
 - (iii) to report at least monthly to the accounting officer on actual expenditure against such transfer; and
 - (iv) to submit its audited financial statements for its financial year to the accounting officer promptly;
- (b) implements effective, efficient and transparent financial management and internal control systems to guard against fraud, theft and financial mismanagement; and
- (c) has in respect of previous similar transfers complied with all the requirements of this section.¹⁸⁹

The accounting officer of a municipality must assist the mayor in performing the budgetary functions assigned to the mayor and provide the mayor with the administrative support, resources and information necessary for the performance of those functions.¹⁹⁰ The accounting officer is further responsible for implementing the municipality's approved budget, including taking all reasonable steps to ensure that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget or in the service

¹⁸⁹ See the MFMA s 67(1)(a)-(c). If there has been a failure by an organisation or body to comply with the requirements of ss 67(1) in respect of a previous transfer, the municipality may, despite s 67(1)(c) make a further transfer to that organisation or body, provided that s 67(1)(a) and (b) is complied with and the relevant provincial treasury has approved the transfer. Through contractual and other appropriate mechanisms, the accounting officer must enforce compliance with s 67(1). Furthermore, s 67(1)(a) does not apply to an organisation or body serving the poor or used by government as an agency to serve the poor, provided that the transfer does not exceed a prescribed limit and that the accounting officer: (i) takes all reasonable steps to ensure that the targeted beneficiaries receive the benefit of the transferred funds and (ii) certifies to the Auditor-General that compliance by that organisation or body with ss 67(1)(a) is uneconomical or unreasonable. Read also the MFMA s 67(2)-(4).

¹⁹⁰ The MFMA s 68.

delivery and budget implementation plan and that revenue and expenditure are properly monitored. When necessary, the accounting officer must prepare an adjustments budget and submit it to the mayor for consideration and tabling in the municipal council. No later than 14 days after the approval of an annual budget, the accounting officer must submit to the mayor a draft service delivery and budget implementation plan for the budget year and drafts of the annual performance agreements as required in terms of section 57(1)(b) of the Municipal Systems Act for the municipal manager and all senior managers.¹⁹¹

In respect of impending shortfalls, overspending and overdrafts, the accounting officer of a municipality must report in writing to the municipal council any

- impending shortfalls in budgeted revenue
- overspending of the municipality's budget
- steps taken to prevent or rectify such shortfalls or overspending.

If the balance in a municipality's bank account or the consolidated balance in the municipality's bank accounts if the municipality has more than one bank account, shows a net overdrawn position for a period exceeding a prescribed period, then the accounting officer of the municipality must promptly notify the National Treasury in the prescribed format of

- the amount by which the account or accounts are overdrawn
- the reasons for the overdrawn account or accounts
- the steps taken or to be taken to correct the matter.¹⁹²

The accounting officer of a municipality is further obligated to submit, by no later than 10 working days after the end of each month, to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget, which statement should reflect the following particulars for that month and for the financial year up to the end of that month:

- (a) Actual revenue, per revenue source;
- (b) actual borrowings;
- (c) actual expenditure, per vote;
- (d) actual capital expenditure, per vote;

¹⁹¹ See the MFMA s 69(1)-(3).

¹⁹² See the MFMA s 70(1)-(3). When determining the net overdrawn position, the accounting officer must exclude any amounts reserved or pledged for any specific purpose or encumbered in any other way.

- (e) the amount of any allocations received;
- (f) actual expenditure on those allocations, excluding expenditure on (i) its share of the local government equitable share; and (ii) allocations exempted by the annual Division of Revenue Act from compliance with this paragraph; and
- (g) when necessary, an explanation of:
 - (i) any material variances from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote;
 - (ii) any material variances from the service delivery and budget implementation plan; and
 - (iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget.¹⁹³

The statement mentioned above must include a projection of the relevant municipality's revenue and expenditure for the rest of the financial year and any revisions from initial projections and the prescribed information relating to the state of the budget of each municipal entity as provided to the municipality in terms of section 87(10) of the MFMA. The amounts reflected in the statement must in each case be compared with the corresponding amounts budgeted for in the municipality's approved budget.¹⁹⁴

The accounting officer of a municipality which has received an allocation referred to in subsection 71(1)(e) of the MFMA during any particular month must submit, by no later than 10 working days after the end of that month, that part of the statement reflecting the particulars referred to in subsection 71(1)(e) and (f) to the national or provincial organ of state or municipality which transferred the allocation. By no later than 22 working days after the end of each month, the provincial treasury must submit to the National Treasury a consolidated statement in the prescribed format on the state of the municipalities' budgets, per municipality and per municipal entity. Within 30 days after the end of each quarter, the provincial treasury must also make public as may be prescribed, a consolidated statement in the prescribed format on the state of municipalities' budgets per municipality and per municipal entity. The MEC for

¹⁹³ The MFMA S 71(1)(a)-(g).

¹⁹⁴ See the MFMA s 71(2)(a)-(b). Note that the statement to the provincial treasury must be in the format of a signed document and in electronic format.

finance must submit such consolidated statement to the provincial legislature no later than 45 days after the end of each quarter.¹⁹⁵

By 25 January of each year all accounting officers of municipalities must

- assess the performance of the municipality during the first half of the financial year, taking into account
 - (a) the monthly statements referred to in section 71 of the MFMA for the first half of the financial year
 - (b) the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan
 - (c) the past year's annual report, and progress on resolving problems identified in the annual report
 - (d) the performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 of the MFMA from any such entities
- submit a report on such assessment to
 - (a) the mayor of the municipality
 - (b) the National Treasury
 - (c) the relevant provincial treasury.¹⁹⁶

As part of the review process, the accounting officer must make recommendations as to whether an adjustments budget is necessary and recommend revised projections for revenue and expenditure to the extent that this may be necessary.¹⁹⁷

The accounting officer of a municipality is obligated to inform the provincial treasury in writing of any failure by the council of the municipality to adopt or implement a budget-related policy or a supply chain management policy referred to in section 111 of the MFMA or any non-compliance by a political structure or office-bearer of the municipality with any such policy.¹⁹⁸ Apart from such obligations, the accounting officer of a municipality must also submit to the National Treasury, the provincial treasury, the department for local government in the province or the Auditor-General

¹⁹⁵ Read the MFMA s 71(5)-(7).

¹⁹⁶ Refer to the MFMA s 72(1)(a)-(b). The statement referred to in s 71(1) for the sixth month of a financial year may be incorporated into the report referred to in subs (1)(b) of this section.

¹⁹⁷ The MFMA s 72(2)-(3).

¹⁹⁸ See the MFMA s 73(a)-(b).

such information, returns, documents, explanations and motivations as may be prescribed or as may be required. If the accounting officer of a municipality is unable to comply with any of the responsibilities in terms of this Act, he or she must report the inability promptly, together with reasons, to the mayor and the provincial treasury.¹⁹⁹

In order to facilitate accountability, openness and public participation, the MFMA requires that various aspects of information should be placed on each municipal website. In this regard, the accounting officer of a municipality must place on the website referred to in section 21A of the Municipal Systems Act the following documents of the municipality:

- (a) the annual and adjustments budgets and all budget-related documents;
- (b) all budget-related policies;
- (c) the annual report;
- (d) all performance agreements required in terms of section 57(1)(b) of the Municipal Systems Act;
- (e) all service delivery agreements;
- (f) all long-term borrowing contracts;
- (g) all supply chain management contracts above a prescribed value;
- (h) an information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14(2) or (4) during the previous quarter;
- (i) contracts to which subsection (1) of section 33 apply, subject to subsection (3) of that section;
- (j) public-private partnership agreements referred to in section 120;
- (k) all quarterly reports tabled in the council in terms of section 52(d); and
- (l) any other documents that must be placed on the website in terms of this act or any other applicable legislation, or as may be prescribed.²⁰⁰

All accounting officers are afforded special protection under the MFMA. In this regard the Act determines that any action taken by a political structure or office-bearer of a municipality against the accounting officer of the municipality solely because of that

¹⁹⁹ Read the MFMA s 74(1)-(2).

²⁰⁰ See the MFMA s 75(1)(a)-(e). A document referred to in ss 75(1) must be placed on the website not later than five days after its tabling in the council or on the date on which it must be made public, whichever occurs first.

accounting officer's compliance with a provision of this Act is an unfair labour practice for the purposes of the Labour Relations Act.²⁰¹

The MFMA further determines that the top management of a municipality's administration consists of:

- the accounting officer
- the chief financial officer
- all senior managers who are responsible for managing the respective votes of the municipality and to whom powers and duties for this purpose have been delegated and
- any other senior officials designated by the accounting officer.²⁰²

Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure:

- (a) that the system of financial management and internal control established for the municipality is carried out diligently;
- (b) that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;
- (c) that any unauthorised, irregular or fruitless and wasteful expenditure and any other losses are prevented;
- (d) that all revenue due to the municipality is collected;
- (e) that the assets and liabilities of the municipality are managed effectively and that assets are safeguarded and maintained to the extent necessary;
- (f) that all information required by the accounting officer for compliance with the provisions of this act is timeously submitted to the accounting officer; and
- (g) that the provisions of this act, to the extent applicable to that senior manager or official, including any delegations, are complied with.²⁰³

The accounting officer of a municipality must, for the proper application of the MFMA in the municipality's administration, develop an appropriate system of delegation that

²⁰¹ See the MFMA s 76 read together with Act 66 of 1995.

²⁰² The MFMA s 77(1)(a)-(d). The top management must assist the accounting officer in managing and co-ordinating the financial administration of the municipality. It should be remembered that the municipal manager is also the accounting officer of a municipality and thus part of top management.

²⁰³ Note that a senior manager or such official must perform the functions referred to in s 78(1) subject to the directions of the accounting officer of the municipality. See also the MFMA s 78(1)-(2).

will both maximise administrative and operational efficiency and provide adequate checks and balances in the municipality's financial administration. In accordance with that system, such officer may further delegate to a member of the municipality's top management or any other official of the municipality

- any of the powers or duties assigned to an accounting officer in terms of the MFMA
- any powers or duties reasonably necessary to assist the accounting officer in complying with a duty which requires the accounting officer to take reasonable or appropriate steps to ensure the achievement of the aims of a specific provision of the MFMA.

An accounting officer must regularly review delegations issued and, if necessary, amend or withdraw any of those delegations.²⁰⁴ A delegation in terms of subsection 79(1) of the MFMA:

- must be in writing
- is subject to such limitations and conditions as the accounting officer may impose in a specific case
- may either be to a specific individual or to the holder of a specific post in the municipality
- may, in the case of a delegation to a member of the municipality's top management, authorise that member to sub-delegate the delegated power or duty to an official or the holder of a specific post in that member's area of responsibility and
- does not divest the accounting officer of the responsibility concerning the exercise of the delegated power or the performance of the delegated duty.²⁰⁵

(h) Aspects relating to municipal budget and treasury offices

Under the MFMA every municipality must have a budget and treasury office. A budget and treasury office consists of a chief financial officer designated by the accounting officer of the municipality, officials of the municipality allocated by the ac-

²⁰⁴ Note that the accounting officer may not delegate to any political structure or political office-bearer of the municipality any of the powers or duties assigned to accounting officers in terms of the MFMA. Read also the MFMA s 79(1)-(2).

²⁰⁵ See the MFMA s 79(3)(a)-(e). The accounting officer may confirm, vary or revoke any decision taken in consequence of a delegation or sub-delegation in terms of this section, but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.

counting officer to the chief financial officer and any other persons contracted by the municipality for the work of the office.²⁰⁶

Within a treasury office, the chief financial officer of a municipality:

- is administratively in charge of the budget and treasury office
- must advise the accounting officer on the exercise of powers and duties assigned to the accounting officer in terms of the MFMA
- must assist the accounting officer in the administration of the municipality's bank accounts and in the preparation and implementation of the municipality's budget
- must advise senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79 of the MFMA and
- must perform such budgeting, accounting, analysis, financial reporting, cash management, debt management, supply chain management, financial management, review and other duties as may be delegated by the accounting officer to the chief financial officer.²⁰⁷

The chief financial officer of a municipality may sub-delegate any of the duties referred to in section 81(1)(b), (d) and (e) of the MFMA:

- to an official in the budget and treasury office
- to the holder of a specific post in that office or
- with the concurrence of the accounting officer to
 - (a) any other official of the municipality or
 - (b) any person contracted by the municipality for the work of the office.²⁰⁸

If the chief financial officer sub-delegates any duties to a person who is not an employee of the municipality, the chief financial officer must be satisfied that effective systems and procedures are in place to ensure control and accountability. A sub-delegation in terms of subsection (1):

- must be in writing
- is subject to such limitations or conditions as the chief financial officer may impose and

²⁰⁶ The MFMA s 80(1)-(2).

²⁰⁷ See the MFMA s 81(1)(a)-(e). Note that the chief financial officer of a municipality is accountable to the accounting officer for the performance of the duties referred to in the Act s 81(1).

²⁰⁸ The MFMA s 82(1)(a)-(c).

- does not divest the chief financial officer of the responsibility concerning the delegated duty.²⁰⁹

In order to fulfil the vast array of duties and responsibilities, the MFMA sets specific competency levels for financial officials. In this regard the accounting officer, senior managers, the chief financial officer and other financial officials of a municipality must meet the prescribed financial management competency levels. A municipality must provide resources or opportunities for the training of officials referred to above to meet the prescribed competency levels. Both the National Treasury or a provincial treasury may assist municipalities in the training of officials referred to in subsection 83(1) of the MFMA.²¹⁰

(i) Aspects concerning municipal entities

When considering the establishment of, or participation in, a municipal entity, a municipality must first

- determine precisely the function or service that such entity would perform on behalf of the municipality and
- make an assessment of the impact of the shifting of that function or service to the entity on the municipality's staff, assets and liabilities, including an assessment of:
 - (i) the number of staff of the municipality to be transferred to the entity;
 - (ii) the number of staff of the municipality that would become redundant because of the shifting of that function or service;
 - (iii) the cost to the municipality of any staff retrenchments or the retention of redundant staff;
 - (iv) any assets of the municipality to be transferred to the entity;
 - (v) any assets of the municipality that would become obsolete because of the shifting of that function or service;
 - (vi) any liabilities of the municipality to be ceded to the entity; and
 - (vii) any debt of the municipality attributed to that function or service which the municipality would retain.²¹¹

A municipality may establish or participate in a municipal entity only if:

²⁰⁹ Read the MFMA s 82(2)-(3). Note also that the chief financial officer may confirm, vary or revoke any decision taken in consequence of a sub-delegation, but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.

²¹⁰ See the MFMA s 83(1)-(3).

²¹¹ The MFMA s 84(1)(a)-(b).

- (a) the municipal manager, at least 90 days before the meeting of the municipal council at which the proposed establishment of the entity, or the municipality's proposed participation in the entity, is to be approved –
- (i) has, in accordance with section 21A of the Municipal Systems Act:
 - (aa) made public an information statement setting out the municipality's plans for the municipal entity together with the assessment which the municipality must conduct in terms of subsection (1); and
 - (bb) invited the local community, organised labour and other interested persons to submit to the municipality comments or representations in respect of the matter; and
 - (ii) has solicited the views and recommendations of –
 - (aa) the National Treasury and the relevant provincial treasury;
 - (bb) the national and provincial departments responsible for local government; and
 - (cc) the MEC for local government in the province; and
- (b) the municipal council has taken into account –
- (i) the assessment referred to in subsection (1);
 - (ii) any comments or representations on the matter received from the local community, organised labour and other interested persons;
 - (iii) any written views and recommendations on the matter received from the National Treasury, the relevant provincial treasury, the national department responsible for local government or the MEC for local government in the province.²¹²

A municipal entity must open and maintain at least one bank account in the name of the entity. All money received by a municipal entity must be paid into its bank account or accounts, and this must be done promptly and in accordance with any requirements that may be prescribed. A municipal entity may not open a bank account:

- abroad
- with an institution not registered as a bank in terms of the Banks Act²¹³
- otherwise than in the name of the entity and

²¹² The MFMA s 84(2)(a)-(b). For the purposes of this section, “establish” includes the acquisition of an interest in a private company that would render that private company a municipal entity.

²¹³ 94 of 1990.

- without the approval of its board of directors.

Money may be withdrawn from a municipal entity's bank account only in accordance with requirements that may be prescribed. The accounting officer of a municipal entity:

- must administer all the entity's bank accounts
- is accountable to the board of directors of the entity for the entity's bank accounts and
- must enforce any requirements that may be prescribed.²¹⁴

The accounting officer of a municipal entity must submit to the entity's parent municipality, in writing and within 90 days after the entity has opened a new bank account, the name of the bank where the account has been opened and the type and number of the account, and annually before the start of a financial year, the name of each bank where the entity holds a bank account and the type and number of each account. The accounting officer of the municipal entity's parent municipality, or if there is more than one parent municipality, any one of the accounting officers of those municipalities as may be agreed between them must, upon receipt of the information referred to above, submit that information to the Auditor-General, the National Treasury and the relevant provincial treasury, in writing.²¹⁵

In respect of budgets, it is required that for each financial year the board of directors of a municipal entity must submit a proposed budget for the entity to its parent municipality not later than 150 days before the start of the entity's financial year or earlier if requested by the parent municipality. The parent municipality must consider the proposed budget of the entity and assess the entity's priorities and objectives. If the parent municipality makes any recommendations on the proposed budget, the board of directors of the entity must consider those recommendations and, if necessary, submit a revised budget to the parent municipality not later than 100 days before the start of the financial year. The mayor of the parent municipality must table the proposed budget of the municipal entity in the council when the annual budget of the municipality for the relevant year is tabled. The board of directors of a municipal entity must approve the budget of the municipal entity not later than 30 days before

²¹⁴ See the MFMA s 85(1)-(5).

²¹⁵ Read the MFMA s 86(1)-(2).

the start of the financial year, taking into account any hearings or recommendations of the council of the parent municipality.²¹⁶

The budget of a municipal entity must conform to the following requirements. It must:

- (a) be balanced;
- (b) be consistent with any service delivery agreement or other agreement between the entity and the entity's parent municipality;
- (c) be within any limits determined by the entity's parent municipality, including any limits on tariffs, revenue, expenditure and borrowing;
- (d) include a multi-year business plan for the entity that –
 - (i) sets key financial and non-financial performance objectives and measurement criteria as agreed with the parent municipality;
 - (ii) is consistent with the budget and integrated development plan of the entity's parent municipality;
 - (iii) is consistent with any service delivery agreement or other agreement between the entity and the entity's parent municipality; and
 - (iv) reflects actual and potential liabilities and commitments, including particulars of any proposed borrowing of money during the period to which the plan relates; and
- (e) otherwise comply with the requirements of section 17(1) and (2) of the MFMA to the extent that such requirements can reasonably be applied to the entity.²¹⁷

With the approval of the mayor, the board of directors of a municipal entity may revise the budget of the municipal entity, but only for the following reasons:

- to adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year
- to authorise expenditure of any additional allocations to the municipal entity from its parent municipality
- to authorise, within a prescribed framework, any unforeseeable and unavoidable expenditure approved by the mayor of the parent municipality
- to authorise any other expenditure within a prescribed framework.²¹⁸

²¹⁶ Refer to the MFMA s 87(1)-(4).

²¹⁷ See the MFMA s 87(5)(a)-(e).

Any projected allocation to a municipal entity from its parent municipality must be provided for in the annual budget of the parent municipality and, to the extent not so provided, the entity's budget must be adjusted. A municipal entity may incur expenditure only in accordance with its approved budget or an adjustments budget. The mayor must table the budget or adjusted budget and any adjustments budget of a municipal entity as approved by its board of directors, at the next council meeting of the municipality. A municipal entity's approved budget or adjusted budget must be made public in substantially the same way as the budget of a municipality must be made public. The accounting officer of a municipal entity must by no later than seven working days after the end of each month submit to the accounting officer of the parent municipality a statement in the prescribed format on the state of the entity's budget reflecting the following particulars for that month and for the financial year up to the end of that month:

- (a) actual revenue, per revenue source;
- (b) actual borrowings;
- (c) actual expenditure;
- (d) actual capital expenditure;
- (e) the amount of any allocations received;
- (f) actual expenditure on those allocations, excluding expenditure on allocations exempted by the annual Division of Revenue Act from compliance with this paragraph; and
- (g) when necessary, an explanation of –
 - (i) any material variances from the entity's projected revenue by source, and from the entity's expenditure projections;
 - (ii) any material variances from the service delivery agreement and the business plan; and
 - (iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the entity's approved budget.²¹⁹

The statement mentioned above must include a projection of revenue and expenditure for the rest of the financial year and any revisions from initial projections.

²¹⁸ The MFMA s 87(6)(a)-(d).

²¹⁹ See the MFMA s 87(7)-(11).

Amounts reflected in the statement must in each case be compared with the corresponding amounts budgeted for in the entity's approved budget. Finally, the statement to the accounting officer of the municipality must be in the format of a signed document and in electronic format.²²⁰

The accounting officer of a municipal entity must by 20 January of each year

- assess the performance of the entity during the first half of the financial year, taking into account the monthly statements referred to in section 87 of the MFMA for the first half of the financial year and the targets set in the service delivery, business plan or other agreement with the entity's parent municipality and the entity's annual report for the past year, and progress on resolving problems identified in the annual report
- submit a report on such assessment to
 - (a) the board of directors of the entity
 - (b) the parent municipality of the entity.²²¹

The parent municipality of a municipal entity must determine the upper limits of the salary, allowances and other benefits of the chief executive officer and senior managers of the entity and monitor and ensure that the municipal entity reports to the council on all expenditure incurred by that municipal entity on directors and staff remuneration matters and in a manner that discloses such expenditure per type of expenditure. This should include:

- salaries and wages
- contributions for pensions and medical aid
- travel, motor car, accommodation, subsistence and other allowances
- housing benefits and allowances
- overtime payments
- loans and advances
- any other type of benefit or allowance related to directors and staff.²²²

A municipal entity may not transfer ownership as a result of a sale or other transaction or otherwise dispose of a capital asset needed to provide the minimum level of basic municipal services. Municipal entities may transfer ownership or otherwise

²²⁰ Read the MFMA s 87(12)-(14).

²²¹ See the MFMA s 88(1)-(2). A report referred to above must be made public.

²²² Read the MFMA s 89(a)-(b).

dispose of a capital asset other than an asset contemplated in subsection 90(1) of the MFMA, but only after the council of its parent municipality, in a meeting open to the public has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services and has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset. A decision by a municipal council that a specific capital asset is not needed to provide the minimum level of basic municipal services may not be reversed by the municipality or municipal entity after that asset has been sold, transferred or otherwise disposed of. Furthermore, a municipal council may delegate to the accounting officer of a municipal entity its power to make the determinations referred to in subsection 90(2)(a) and (b) in respect of movable capital assets of the entity below a value determined by the council. Any transfer of ownership of a capital asset in terms of subsection 90(2) or (4) of the MFMA must be fair, equitable, transparent and competitive and consistent with the supply chain management policy which the municipal entity must have and maintain in terms of section 111 of the MFMA.²²³

The financial year of a municipal entity must be the same as that of municipalities and the Auditor-General must audit and report on the accounts, financial statements and financial management of each municipal entity.²²⁴ The chief executive officer of a municipal entity is the accounting officer of the entity. The accounting officer of a municipal entity has various fiduciary duties. He or she must:

- (a) exercise utmost care to ensure reasonable protection of the assets and records of the entity;
- (b) act with fidelity, honesty, integrity and in the best interest of the entity in managing the financial affairs of the entity;
- (c) disclose to the entity's parent municipality and the entity's board of directors all material facts, including those reasonably discoverable, which in any way may influence the decisions or actions of the parent municipality or the board of directors; and

²²³ Note that s 90 does not apply to the transfer of a capital asset to a municipality or another municipal entity or to a national or provincial organ of state in circumstances and in respect of categories of assets approved by the National Treasury, provided that such transfers are in accordance with a prescribed framework. See the MFMA s 90(1)-(6).

²²⁴ Refer to the MFMA ss 91 and 92.

(d) seek, within the sphere of influence of that accounting officer, to prevent any prejudice to the financial interests of the parent municipality or the municipal entity.²²⁵ The accounting officer may not act in a way that is inconsistent with the responsibilities assigned to accounting officers of municipal entities in terms of this act or use the position or privileges of, or confidential information obtained as accounting officer, for personal gain or to improperly benefit another person.²²⁶

The accounting officer of a municipal entity is responsible for managing the financial administration of the entity and must for this purpose take all reasonable steps to ensure:

- (a) that the resources of the entity are used effectively, efficiently, economically and transparently;
- (b) that full and proper records of the financial affairs of the entity are kept;
- (c) that the entity has and maintains effective, efficient and transparent systems-
 - (i) of financial and risk management and internal control; and
 - (ii) of internal audit complying with and operating in accordance with any prescribed norms and standards;
- (d) that irregular and fruitless and wasteful expenditure and other losses are prevented;
- (e) that expenditure is in accordance with the operational policies of the entity; and
- (f) that disciplinary or, when appropriate, criminal proceedings, are instituted against any official of the entity who has allegedly committed an act of financial misconduct or an offence in terms of chapter 15 of the MFMA.²²⁷

The accounting officer of a municipal entity is responsible for the management of the assets of the entity, including the safeguarding and maintenance of those assets and the liabilities of the entity. For the purposes of subsection 96(1) of the MFMA, the accounting officer must take all reasonable steps to ensure that the entity has and maintains a management, accounting and information system that accounts for proper assets and liabilities of the management systems of the municipal entity and

²²⁵ See the MFMA s 94(1)(a)-(d).

²²⁶ The MFMA s 94(2)(a)-(b).

²²⁷ Read the MFMA s 95(a)-(f).

a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.²²⁸ Furthermore, the accounting officer of a municipal entity must take all reasonable steps to ensure:

- (a) that the entity has and implements effective revenue collection systems to give effect to its budget;
- (b) that all revenue due to the entity is collected;
- (c) that any funds collected by the entity on behalf of a municipality-
 - (i) are transferred to that municipality strictly in accordance with the agreement between the entity the municipality; and
 - (ii) are not used for the purposes of the entity;
- (d) that the municipal entity has effective revenue collection systems consistent with those of the parent municipality;
- (e) that revenue due to the entity is calculated on a monthly basis;
- (f) that accounts for service charges are prepared on a monthly basis, or less often as may be prescribed where monthly accounts are uneconomical;
- (g) that all money received is promptly deposited in accordance with this act into the municipal entity's bank accounts;
- (h) that the municipal entity has and maintains a management, accounting and information system which:
 - (i) recognises revenue when it is earned;
 - (ii) accounts for debtors; and
 - (iii) accounts for receipts of revenue;
- (i) that the municipal entity has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed; and
- (j) that all revenue received by the municipal entity, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis.²²⁹

Monthly reconciliation of revenue and accounts is also required. The accounting officer of a municipal entity must take all reasonable steps to ensure that all revenue received by the entity, including revenue received by any collecting agency on its

²²⁸ See the MFMA s 96(1)-(2).

²²⁹ See the MFMA s 97(2)(a)-(j). The accounting officer must immediately inform the parent municipality of any payments due by an organ of state to the entity in respect of service charges, if such payments are regularly in arrears for periods of more than 30 days.

behalf, is reconciled on a monthly or more regular basis, and all accounts of the entity are reconciled each month.²³⁰

Each accounting officer of a municipal entity is responsible for the management of the expenditure of the entity. Such an officer must for the purpose of subsection 99(1) of the MFMA take all reasonable steps to ensure:

- (a) that the entity has and maintains an effective system of expenditure control including procedures for the approval, authorisation, withdrawal and payment of funds;
- (b) that all money owing by the entity is paid within 30 days of receiving the relevant invoice or statement unless prescribed otherwise for certain categories of expenditure;
- (c) that the entity has and maintains a management, accounting and information system which:
 - (i) recognises expenditure when it is incurred;
 - (ii) accounts for creditors of the entity; and
 - (iii) accounts for payments made by the entity;
- (d) that the entity has and maintains a system of internal control in respect of creditors and payments;
- (e) that payments by the entity are made –
 - (i) directly to the person to whom it is due unless agreed otherwise only for reasons as may be prescribed; and
 - (ii) either electronically or by way of non-transferable cheques, provided that cash payments and payments by way of cash cheques may be made for exceptional reasons only, and only up to a prescribed limit;
- (f) that the entity complies with its tax, duty, pension, medical aid, audit fees and other statutory commitments;
- (g) that the entity's available working capital is managed effectively and economically in terms of any prescribed cash management and investment framework; and
- (h) that the entity has and implements a supply chain management policy in accordance with section 111 of the MFMA in a way that is fair, equitable, trans

²³⁰ The MFMA s 98(a)-(b).

parent and cost-effective.²³¹

The accounting officer of a municipal entity is also responsible for implementing the entity's budget, including taking effective and appropriate steps to ensure that

- the spending of funds is in accordance with the budget
- revenue and expenditure are properly monitored
- spending is reduced as necessary when revenue is anticipated to be less than projected in the budget.²³²

It is furthermore required that the accounting officer of a municipal entity must report, in writing, to the board of directors of the entity, at its next meeting, and to the accounting officer of the entity's parent municipality any financial problems of the entity, including:

(a) any impending or actual-

- (i) under collection of revenue due;
 - (ii) shortfalls in budgeted revenue;
 - (iii) overspending of the entity's budget;
 - (iv) delay in the entity's payments to any creditors; or
 - (v) overdraft in any bank account of the entity for a period exceeding 21 days;
- and

(b) any steps taken to rectify such financial problems.²³³

On discovery of any irregular expenditure or any fruitless and wasteful expenditure, the board of directors of a municipal entity must promptly report, in writing, to the mayor and municipal manager of the entity's parent municipality and the Auditor-General

- particulars of the expenditure
- any steps that have been taken
 - (a) to recover the expenditure
 - (b) to prevent a recurrence of the expenditure.

The board of directors of a municipal entity must promptly report to the South African Police Service any irregular expenditure that may constitute a criminal offence and

²³¹ Read the MFMA s 99(2)(a)-(h).

²³² The MFMA s 100(a)-(c).

²³³ The accounting officer of the municipality must table a report referred to in s 101(1) in the municipal council at its next meeting. See the MFMA s 101(1)-(2).

other losses suffered by the municipal entity which resulted from suspected criminal conduct.²³⁴

The accounting officer of a municipal entity must promptly report to the speaker of the council of the entity's parent municipality any interference by a councillor outside that councillor's assigned duties in the financial affairs of the municipal entity or the responsibilities of the board of directors of the municipal entity.²³⁵ Except where otherwise provided in the MFMA, the accounting officer of a municipal entity is responsible for the submission by the entity of all reports, returns, notices and other information to the entity's parent municipality as may be required by the Act and must submit to the accounting officer of the entity's parent municipality, the National Treasury, the relevant provincial treasury, the department of local government in the province or the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as may be required.²³⁶

Each official of a municipal entity exercising financial management responsibilities must take all reasonable steps within that official's area of responsibility to ensure that:

- (a) the system of financial management and internal control established for the entity is carried out diligently;
- (b) the financial and other resources of the entity are utilised effectively, efficiently, economically and transparently;
- (c) any irregular expenditure, fruitless and wasteful expenditure and other losses are prevented;
- (d) all revenue due to the entity is collected;
- (e) the provisions of this Act to the extent applicable to that official, including any delegations in terms of section 106 of the MFMA, are complied with; and
- (f) the assets and liabilities of the entity are managed effectively, and that assets are safeguarded and maintained to the extent necessary.²³⁷

²³⁴ The MFMA s 102(1)-(2).

²³⁵ The MFMA s 103.

²³⁶ If the accounting officer of a municipal entity is unable to comply with any of the responsibilities in terms of the MFMA, he or she must report the inability to the council of the entity's parent municipality promptly, together with reasons. See the MFMA s 104(1)-(2).

²³⁷ An official of a municipal entity must perform the functions referred to above, subject to the directions of the accounting officer of the entity. Refer to the MFMA s 105(1)-(2).

In respect of the delegation of authority, it is provided that the accounting officer of a municipal entity may delegate to an official of that entity:

- any of the powers or duties assigned or delegated to the accounting officer in terms of the MFMA or
- any powers or duties reasonably necessary to assist the accounting officer in complying with a duty which requires the accounting officer to take reasonable or appropriate steps to ensure the achievement of the aims of a specific provision of the MFMA.

The accounting officer must also regularly review delegations issued and, if necessary, amend or withdraw any of those delegations. A delegation must be in writing, is subject to any limitations and conditions the accounting officer may impose, may be either to a specific individual or to the holder of a specific post in the municipal entity and does not divest the accounting officer of the responsibility concerning the exercise of the delegated power or the performance of the delegated duty.²³⁸ The accounting officer, senior managers, any chief financial officer and all other financial officials of a municipal entity must meet the prescribed financial management competency levels.²³⁹

A municipal entity may borrow money, but only in accordance with the entity's multi-year business plan and the provisions of chapter 6 of the MFMA to the extent that those provisions can be applied to a municipal entity. In applying chapter 6 to a municipal entity, a reference in that chapter to a municipality, a municipal council or an accounting officer must be read as referring to a municipal entity, the board of directors of a municipal entity or the accounting officer of a municipal entity, respectively.²⁴⁰ If a municipal entity experiences serious or persistent financial problems and the board of directors of the entity fails to act effectively, the parent municipality must either

- take appropriate steps in terms of its rights and powers over that entity, including its rights and powers in terms of any relevant service delivery or other agreement

²³⁸ See the MFMA s 106(1)-(2). Note that an accounting officer may confirm, vary or revoke any decision taken by an official in consequence of a delegation, but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.

²³⁹ The MFMA s 107.

²⁴⁰ See the MFMA s 108(1)-(2).

- impose a financial recovery plan, which must meet the same criteria set out in section 142 of the MFMA for a municipal financial recovery plan or
- liquidate and disestablish the entity.²⁴¹

(j) Issues relating to goods and services

Each municipality and each municipal entity must have and implement a supply chain management policy which gives effect to the provisions of this part. The supply chain management policy of a municipality or municipal entity must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management, which must cover at least the following:

- (a) The range of supply chain management processes that municipalities and municipal entities may use, including tenders, quotations, auctions and other types of competitive bidding;
- (b) when a municipality or municipal entity may or must use a particular type of process;
- (c) procedures and mechanisms for each type of process;
- (d) procedures and mechanisms for more flexible processes where the value of a contract is below a prescribed amount;
- (e) open and transparent pre-qualification processes for tenders or other bids;
- (f) competitive bidding processes in which only pre-qualified persons may participate;
- (g) bid documentation, advertising of and invitations for contracts;
- (h) procedures and mechanisms for:
 - (i) the opening, registering and recording of bids in the presence of interested persons;
 - (ii) the evaluation of bids to ensure best value for money;
 - (iii) negotiating the final terms of contracts; and
 - (iv) the approval of bids;
- (i) screening processes and security clearances for prospective contractors on tenders or other bids above a prescribed value;

²⁴¹ Read the MFMA s 109(a)-(c).

- (j) compulsory disclosure of any conflicts of interests prospective contractors may have in specific tenders and the exclusion of such prospective contractors from those tenders or bids;
- (k) participation in the supply chain management system of persons who are not officials of the municipality or municipal entity, subject to section 117 of the MFMA;
- (l) the barring of persons from participating in tendering or other bidding processes, including persons:
 - (i) who were convicted for fraud or corruption during the past five years;
 - (ii) who wilfully neglected, reneged on or failed to comply with a government contract during the past five years; or
 - (iii) whose tax matters are not cleared by South African Revenue Service;
- (m) measures for:
 - (i) combating fraud, corruption, favouritism and unfair and irregular practices in municipal supply chain management; and
 - (ii) promoting ethics of officials and other role players involved in municipal supply chain management;
- (n) the invalidation of recommendations or decisions that were unlawfully or improperly made, taken or influenced, including recommendations or decisions that were made, taken or in any way influenced by –
 - (i) councillors in contravention of item 5 or 6 of the Code of Conduct for Councillors set out in Schedule 1 to the Municipal Systems Act; or
 - (ii) municipal officials in contravention of item 4 or 5 of the Code of Conduct for Municipal Staff Members set out in Schedule 2 to that act;
- (o) the procurement of goods and services by municipalities or municipal entities through contracts procured by other organs of state;
- (p) contract management and dispute settling procedures; and
- (q) the delegation of municipal supply chain management powers and duties, including to officials.²⁴²

With respect to unsolicited bids, a municipality or municipal entity is not obliged to consider an unsolicited bid received outside its normal bidding process. If a municipi-

²⁴² See the MFMA ss 111-112. Note that the regulatory framework for municipal supply chain management must be fair, equitable, transparent, competitive and cost effective.

pality or municipal entity decides to consider an unsolicited bid received outside a normal bidding process, it may do so only in accordance with a prescribed framework. Such a framework must strictly regulate and limit the power of municipalities and municipal entities to approve unsolicited bids received outside their normal tendering or other bidding processes.²⁴³

In respect of the approval tenders, it is stated that if a tender other than the one recommended in the normal course of implementing the supply chain management policy of a municipality or municipal entity is approved, the accounting officer of the municipality or municipal entity must, in writing, notify the Auditor-General, the relevant provincial treasury and the National Treasury and, in the case of a municipal entity, also the parent municipality of the reasons for deviating from such recommendation.²⁴⁴

The accounting officer of a municipality or municipal entity must implement the supply chain management policy of the municipality or municipal entity and must take all reasonable steps to ensure that proper mechanisms and separation of duties in the supply chain management system are in place to minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices. No person may impede the accounting officer in fulfilling this responsibility.²⁴⁵

A contract or agreement procured through the supply chain management system of a municipality or municipal entity must

- be in writing
- stipulate the terms and conditions of the contract or agreement, which must include provisions providing for:
 - (a) the termination of the contract or agreement in the case of non- or under-performance
 - (b) dispute resolution mechanisms to settle disputes between the parties
 - (c) a periodic review of the contract or agreement once every three years in the case of a contract or agreement for longer than three years and
 - (d) any other matters that may be prescribed.

The accounting officer of a municipality or municipal entity must also:

²⁴³ Read the MFMA s 113(1)-(3).

²⁴⁴ S 114(1) does not apply if a different tender was approved in order to rectify an irregularity. See the MFMA s 114(1)-(2).

²⁴⁵ The MFMA s 115(1)-(2).

- take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality or municipal entity is properly enforced
- monitor the performance of the contractor under the contract or agreement on a monthly basis
- establish capacity in the administration of the municipality or municipal entity:
 - (a) to assist the accounting officer in carrying out the above duties and
 - (b) to oversee the day-to-day management of the contract or agreement and
- report regularly to the council of the municipality or the board of directors of the entity, as may be appropriate, on the management of the contract or agreement and the performance of the contractor.²⁴⁶

A contract or agreement procured through the supply chain management policy of the municipality or municipal entity may be amended by the parties, but only after

- (a) the reasons for the proposed amendment have been tabled in the council of the municipality or, in the case of a municipal entity, in the council of its parent municipality; and
- (b) the local community:
 - (i) has been given reasonable notice of the intention to amend the contract or agreement; and
 - (ii) has been invited to submit representations to the municipality or municipal entity.²⁴⁷

According to the MFMA, no councillor of any municipality may be a member of a municipal bid committee or any other committee evaluating or approving tenders, quotations, contracts or other bids, nor attend any such meeting as an observer. No person may further interfere with the supply chain management system of a municipality or municipal entity or amend or tamper with any tenders, quotations, contracts or bids after their submission.²⁴⁸

The accounting officer and all other officials of a municipality or municipal entity involved in the implementation of the supply chain management policy of the municipality or municipal entity must meet the prescribed competency levels. A municipality

²⁴⁶ The MFMA s 116(2).

²⁴⁷ See the MFMA s 116(1)-(3).

²⁴⁸ Read the MFMA ss 117 and 118.

and a municipal entity must for the purposes of subsection 119(1) of the MFMA provide resources or opportunities for the training of officials referred to in that subsection to meet the prescribed competency levels. The National Treasury or a provincial treasury may assist municipalities and municipal entities in the training of officials.²⁴⁹

A municipality may enter into a public-private partnership agreement, but only if the municipality can demonstrate that the agreement will:

- provide value for money to the municipality
- be affordable for the municipality and
- transfer appropriate technical, operational and financial risk to the private party.

A public-private partnership agreement must comply with any prescribed regulatory framework for public-private partnerships. If the public-private partnership involves the provision of a municipal service, chapter 8 of the Municipal Systems Act must also be complied with. Before a public-private partnership is concluded, the municipality must conduct a feasibility study that:

- (a) explains the strategic and operational benefits of the public-private partnership for the municipality in terms of its objectives;
- (b) describes in specific terms:
 - (i) the nature of the private party's role in the public-private partnership;
 - (ii) the extent to which this role, both legally and by nature, can be performed by a private party; and
 - (iii) how the proposed agreement will:
 - (aa) provide value for money to the municipality;
 - (bb) be affordable for the municipality;
 - (cc) transfer appropriate technical, operational and financial risks to the private party; and
 - (dd) impact on the municipality's revenue flows and its current and future budgets;
- (c) takes into account all relevant information; and
- (d) explains the capacity of the municipality to effectively monitor, manage and enforce the agreement.²⁵⁰

²⁴⁹ Refer to the MFMA s 119(1)-(3).

²⁵⁰ The MFMA s 120(1)-(4).

National government may assist municipalities in carrying out and assessing the feasibility studies referred to above. When a feasibility study has been completed, the accounting officer of the municipality must:

- (a) submit the report on the feasibility study together with all other relevant documents to the council for a decision, in principle, on whether the municipality should continue with the proposed public-private partnership;
- (b) at least 60 days prior to the meeting of the council at which the matter is to be considered, in accordance with section 21A of the Municipal Systems Act-
 - (i) make public particulars of the proposed public-private partnership, including the report on the feasibility study; and
 - (ii) invite the local community and other interested persons to submit to the municipality comments or representations in respect of the proposed public-private partnership; and
- (c) solicit the views and recommendations of-
 - (i) the National Treasury;
 - (ii) the national department responsible for local government;
 - (iii) if the public-private partnership involves the provision of water, sanitation, electricity or any other service as may be prescribed, the responsible national department; and
 - (iv) any other national or provincial organ of state as may be prescribed.²⁵¹

(k) Requirements regarding financial reporting and auditing

For each financial year, every municipality and every municipal entity must prepare an annual report in accordance with the MFMA. Within nine months after the end of a financial year the council of a municipality must deal with the annual report of the municipality and of any municipal entity under the municipality's sole or shared control in accordance with section 129 of the Act. The purpose of an annual report is:

- to provide a record of the activities of the municipality or municipal entity during the financial year to which the report relates
- to provide a report on performance against the budget of the municipality or municipal entity for that financial year and

²⁵¹ Note that the MFMA ss 110-119 apply to the procurement of public-private partnership agreements. S 33 also applies if the agreement will have multi-year budgetary implications for the municipality within the meaning of that section. Read also s 110 with reference to the application of the MFMA ss 110-119.

- to promote accountability to the local community for the decisions made throughout the year by the municipality or municipal entity.²⁵²

The annual report of a municipality must include the following information:

- (a) the annual financial statements of the municipality,²⁵³ and in addition, if section 122(2) of the MFMA applies, consolidated annual financial statements, as submitted to the Auditor-General for audit in terms of section 126(1) of the act;
- (b) the Auditor-General's audit report in terms of section 126(3) on those financial statements;
- (c) the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Municipal Systems Act;
- (d) the Auditor-General's audit report in terms of section 45(b) of the Municipal Systems Act;
- (e) an assessment by the municipality's accounting officer of any arrears on municipal taxes and service charges;
- (f) an assessment by the municipality's accounting officer of the municipality's performance against the measurable performance objectives referred to in section 17(3)(b) of the MFMA for revenue collection from each revenue source and for each vote in the municipality's approved budget for the relevant financial year;
- (g) particulars of any corrective action taken or to be taken in response to issues raised in the audit reports referred to in paragraphs (b) and (d);
- (h) any explanations that may be necessary to clarify issues in connection with the financial statements;
- (i) any information as determined by the municipality;
- (j) any recommendations of the municipality's audit committee; and
- (k) any other information as may be prescribed.²⁵⁴

The annual report of a municipal entity must include:

- (a) the annual financial statements of the entity, as submitted to the Auditor-General for audit in terms of section 126(2);

²⁵² Read the MFMA s 121(1)-(2).

²⁵³ Such financial statements include statements consisting of at least (a) a statement of financial position, (b) a statement of financial performance, (c) a cash-flow statement, (d) any other statements that may be prescribed and (d) any notes to these statements. See the MFMA s 1.

²⁵⁴ The MFMA s 121(3)(a)-(k).

- (b) the Auditor-General's audit report in terms of section 126(3) on those financial statements;
- (c) an assessment by the entity's accounting officer of any arrears on municipal taxes and service charges;
- (d) an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms the service delivery agreement or other agreement between the entity and its parent municipality;
- (e) particulars of any corrective action taken or to be taken in response to issues raised in the audit report referred to in paragraph (b);
- (f) any information as determined by the entity or its parent municipality;
- (g) any recommendations of the audit committee of the entity or of its parent municipality; and
- (h) any other information as may be prescribed.²⁵⁵

For each financial year, every municipality and every municipal entity must prepare annual financial statements which fairly present the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results and its financial position as at the end of the financial year and disclose the information required in terms of sections 123, 124 and 125 of the MFMA. A municipality which has sole control of a municipal entity or which has effective control of a municipal entity which is a private company within the meaning of the Municipal Systems Act must, in addition to complying with subsection 122(1) of the MFMA, prepare consolidated annual financial statements incorporating the annual financial statements of the municipality and of such entity. Such consolidated annual financial statements must comply with any requirements as may be prescribed. Both annual financial statements and consolidated annual financial statements must be prepared in accordance with generally recognised accounting practice prescribed in terms of section 91(1)(b) of the Public Finance Management Act.²⁵⁶

The annual financial statements of a municipality must disclose information on

²⁵⁵ The MFMA s 121(4)(a)-(h).

²⁵⁶ See the MFMA s 122(1)-(3). "Standards of generally recognised accounting practice" refers to an accounting practice complying with standards applicable to municipalities or municipal entities and issued in terms of the Public Finance Management Act ch 11.

- any allocations received by the municipality from
 - (a) an organ of state in the national or provincial sphere of government or
 - (b) a municipal entity or another municipality
- any allocations made by the municipality to
 - (a) a municipal entity or another municipality or
 - (b) any other organ of state
- how any allocations were spent, per vote, excluding allocations received by the municipality as its portion of the equitable share or where prescribed otherwise because of the nature of the allocation
- whether the municipality has complied with the conditions of
 - (a) any allocations made to the municipality in terms of section 214(1)(c) of the Constitution and
 - (b) any allocations made to the municipality other than by national organs of state
- the reasons for any non-compliance with the two conditions referred to directly above and
- whether funds destined for the municipality in terms of the annual Division of Revenue Act were delayed or withheld, and the reasons advanced to the municipality for such delay or withholding.

The annual financial statements of a municipal entity must also disclose information on:

- any allocations received by the entity from any municipality or other organ of state
- any allocations made by the entity to a municipality or other organ of state and
- any other information as may be prescribed.²⁵⁷

The notes to the annual financial statements of a municipality must include particulars of

- the salaries, allowances and benefits of political office-bearers and councillors of the municipality, whether financial or in kind, including a statement by the accounting officer whether or not those salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution
- any arrears owed by individual councillors to the municipality, or a municipal entity under its sole or shared control, for rates or services and which at any time during

²⁵⁷ Read the MFMA s 123(1)-(2).

the relevant financial year were outstanding for more than 90 days, including the names of those councillors and

- the salaries, allowances and benefits of the municipal manager, the chief financial officer, every senior manager and such categories of other officials as may be prescribed.

The notes to the annual financial statements of a municipal entity must include particulars of the salaries, allowances and benefits of

- the members of the board of directors of the entity and
- the chief executive officer of the entity, every senior manager and such categories of other officials as may be prescribed.²⁵⁸

The notes to the financial statements of a municipality must include:

- a list of all municipal entities under the sole or shared control of the municipality during the financial year and as at the last day of the financial year.
- the total amount of contributions to organised local government for the financial year, and the amount of any contributions outstanding as at the end of the financial year; and
- the total amounts paid in audit fees, taxes, levies, duties and pension and medical aid contributions, and whether any amounts were outstanding as at the end of the financial year.²⁵⁹

The notes to the annual financial statements of a municipality or municipal entity must disclose the following information:

- (a) In respect of each bank account held by the municipality or entity during the relevant financial year:
 - (i) the name of the bank where the account is or was held, and the type of account; and
 - (ii) year opening and year end balances in each of these bank accounts;
- (b) a summary of all investments of the municipality or entity as at the end of the financial year;²⁶⁰

²⁵⁸ See the MFMA s 124(1)-(2).

²⁵⁹ The MFMA s 125(1).

²⁶⁰ Investment in relation to funds of a municipality means (a) the placing on deposit of funds of a municipality with a financial institution or (b) the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds. See the MFMA s 1.

- (c) particulars of any contingent liabilities of the municipality or entity as at the end of the financial year;
- (d) particulars of:
- (i) any material losses and any material irregular or fruitless and wasteful expenditures, including in the case of a municipality, any material unauthorised expenditure, that occurred during the financial year, and whether these are recoverable;
 - (ii) any criminal or disciplinary steps taken as a result of such losses or such unauthorised, irregular or fruitless and wasteful expenditures; and
 - (iii) any material losses recovered or written off;
- (e) particulars of non-compliance with this act; and
- (f) any other matters that may be prescribed.²⁶¹

It is further determined that the accounting officer of a municipality must prepare the annual financial statements of the municipality and, within two months after the end of the financial year to which those statements relate, submit the statements to the Auditor-General for auditing and in addition, in the case of a municipality referred to in section 122(2) of the MFMA, must prepare consolidated annual financial statements in terms of that section and submit the statements to the Auditor-General for auditing within three months after the end of the financial year to which those statements relate.²⁶²

It is the responsibility of the accounting officer of a municipal entity to prepare the annual financial statements of the entity and submit the statements to

- the parent municipality of the entity
- the Auditor-General

for auditing within two months after the end of the financial year to which those statements relate. The Auditor-General must audit those financial statements and submit an audit report on those statements to the accounting officer of the municipality or entity within three months of receipt of the statements. If the Auditor-General is unable to complete an audit within three months of receiving the financial statements from an accounting officer, the Auditor-General must promptly submit a report outlining the reasons for the delay to the relevant municipality or municipal entity and to

²⁶¹ See the MFMA s 125(1)-(2).
²⁶² The MFMA s 126(1)(a)-(b).

the relevant provincial legislature and Parliament. Once the Auditor-General has submitted an audit report to the accounting officer, no person other than the Auditor-General may alter the audit report or the financial statements to which the audit report relates.²⁶³

According to the MFMA, within six months after the end of a financial year or on such earlier date as may be agreed between the entity and its parent municipality, the accounting officer of a municipal entity must submit the entity's annual report for that financial year to the municipal manager of the entity's parent municipality. Within seven months after the end of a financial year the mayor of a municipality must table in the municipal council the annual report of the municipality and of any municipal entity under the municipality's sole or shared control. If, for whatever reason, the mayor is unable to table in the council the annual report of the municipality or the annual report of any municipal entity under the municipality's sole or shared control within seven months after the end of the financial year to which the report relates, the mayor must promptly submit to the council a written explanation referred to in section 133(1)(a) of the MFMA, setting out the reasons for the delay, together with any components of the annual report listed in section 121(3) or (4) of the Act that are ready, and also submit to the council the outstanding annual report or the outstanding components of the annual report as soon as possible.²⁶⁴

The Auditor-General may submit the financial statements and audit report of a municipality directly to the municipal council, the National Treasury, the relevant provincial treasury, the MEC responsible for local government in the province and any prescribed organ of state, if the mayor fails to comply with subsection 127(2) or (3) of the MFMA or directly to the parent municipality, the National Treasury, the relevant provincial treasury, the MEC responsible for local government in the province and any prescribed organ of state, if the accounting officer of the entity fails to comply with subsection 127(1). In accordance with section 21A of the Municipal Systems Act, the accounting officer of the municipality must make public the annual report and invite the local community to submit representations in connection with the annual report immediately after an annual report is tabled in the council. He or she must also submit the annual report to the Auditor-General, the relevant provincial

²⁶³ Read the MFMA s 126(2)-(5).

²⁶⁴ Refer to the MFMA s 127(1)-(3).

treasury and the provincial department responsible for local government in the province.²⁶⁵

It is the responsibility of the accounting officer of a parent municipality to monitor whether the accounting officer of any municipal entity under the sole or shared control of the municipality has complied with sections 121(1) and 126(2) of the MFMA, to establish the reasons for any non-compliance and to promptly report any non-compliance, together with the reasons for such non-compliance, to the council of the parent municipality, the relevant provincial treasury and the Auditor-General.²⁶⁶

The council of a municipality must consider the annual report of the municipality and any municipal entity under the municipality's sole or shared control, and by no later than two months from the date on which the annual report was tabled in the council in terms of section 127, adopt an oversight report containing the council's comments on the annual report, which must include a statement whether the council:

- has approved the annual report with or without reservations
- has rejected the annual report or
- has referred the annual report back for revision of those components that can be revised.

The accounting officer must also attend council and council committee meetings where the annual report is discussed, for the purpose of responding to questions concerning the report and submit copies of the minutes of those meetings to the Auditor-General, the relevant provincial treasury and the provincial department responsible for local government in the province.²⁶⁷

Furthermore and in accordance with section 21A of the Municipal Systems Act, the accounting officer must make public an oversight report referred to above within seven days of its adoption. The National Treasury may issue guidelines on the manner in which municipal councils should consider annual reports and conduct public hearings and the functioning and composition of any public accounts or oversight committees established by the council to assist it to consider an annual report. No

²⁶⁵ S 127(5), with the necessary modifications as the context may require, is also applicable if only components of the annual report are tabled in terms of s 127(3). See the MFMA s 127(4)-(6).

²⁶⁶ Read the MFMA s 128(a)-(c).

²⁶⁷ The MFMA s 129(1)-(2).

guidelines issued in terms of subsection 129(4) of the MFMA are binding on a municipal council unless adopted by the council.²⁶⁸

The meetings of a municipal council at which an annual report is to be discussed or at which decisions concerning an annual report are to be taken must be open to the public and any organs of state, and a reasonable time must be allowed for the discussion of any written submissions received from the local community or organs of state on the annual report and for members of the local community or any organs of state to address the council. Representatives of the Auditor-General are entitled to attend and to speak at any council meeting referred to above.²⁶⁹

All municipalities must address any issues raised by the Auditor-General in an audit report. The mayor of a municipality must ensure compliance by the municipality with this requirement. The MEC for local government in the province must also assess all annual financial statements of municipalities in the province, the audit reports on such statements and any responses of municipalities to such audit reports and determine whether municipalities have adequately addressed any issues raised by the Auditor-General in audit reports and within 60 days must report to the provincial legislature any omission by a municipality to address those issues adequately.²⁷⁰ Various documents must also be submitted to provincial legislatures. Such documents include:

- the annual report of each municipality and each municipal entity in the province or, if only components of an annual report were tabled in terms of section 127(3) of the MFMA, those components and
- all oversight reports on those annual reports adopted in terms of section 129(1) of the MFMA.

The accounting officer of a municipality must submit the documents to the provincial legislature within seven days after the municipal council has adopted the relevant oversight report. The MEC for local government in a province must monitor whether municipalities in the province comply with these requirements. A provincial legisla-

²⁶⁸ Read the MFMA s 129(3)-(4). S 129 with the necessary modifications as the context may require, is also applicable if only components of the annual report were tabled in terms of the Act s 127(3).

²⁶⁹ Again s 130, with the necessary modifications as the context may require, is also applicable if only components of the annual report were tabled in terms of s 127(3). See also the MFMA s 130(1)-(3).

²⁷⁰ Read the MFMA s 131(1)-(2).

ture may in turn deal with the documents in accordance with its constitutional powers.²⁷¹

If the accounting officer of a municipality or municipal entity fails to submit financial statements to the Auditor-General in accordance with section 126 (1) or (2) of the MFMA, or if the mayor fails to table the annual report of the municipality or a municipal entity in the council in accordance with section 127(2) of the Act, then the mayor must promptly table in the council a written explanation setting out the reasons for the failure. Furthermore, the Auditor-General, in the case of any failure to submit financial statements for auditing, must promptly

- inform the speaker of the council, the National Treasury and the MEC for local government and the MEC for finance in the province of such failure and
- issue a special report on the failure to the relevant provincial legislature.

The municipal council then

- must request the speaker or any other councillor to investigate the reasons for the failure and report to the council
- must take appropriate steps to ensure that the financial statements are submitted to the Auditor-General or that the annual report, including the financial statements and the audit report on those statements, is tabled in the council, as the case may be
- may order that disciplinary steps be taken against the accounting officer or other person responsible for the failure.²⁷²

The provincial executive may also intervene in the municipality in terms of section 139 of the Constitution. Even the National Treasury and also the provincial treasury may take appropriate steps against the municipality in terms of section 5 of the MFMA.

The Auditor-General must submit to Parliament and the provincial legislatures by no later than 31 October of each year the names of any municipalities or municipal entities which have failed to submit their financial statements to the Auditor-General in terms of section 126 of the MFMA and at quarterly intervals thereafter, the names

²⁷¹ See the MFMA s 132(1)-(5). The National Treasury may issue guidelines on the manner in which provincial legislatures should consider the annual reports of municipalities. No guidelines issued in terms of this subsection are binding on a provincial legislature unless adopted by the legislature.

²⁷² See the MFMA s 133(1)(a)-(c).

of any municipalities or municipal entities whose financial statements are still outstanding at the end of each interval.²⁷³ As part of the report referred to in section 48 of the Municipal Systems Act, it is also mandatory for the cabinet member responsible for local government to report annually to parliament on actions taken by MECs for local government to address issues raised by the Auditor-General in audit reports on financial statements of municipalities and municipal entities.²⁷⁴

(l) Resolution of financial problems

The primary responsibility to avoid, identify and resolve financial problems in a municipality rests with the municipality itself. A municipality must meet its financial commitments. If a municipality encounters a serious financial problem or anticipates problems in meeting its financial commitments, it must immediately seek solutions to the problem, notify the MEC for local government in the province and the MEC for finance in the province and notify organised local government.²⁷⁵ Apart from the municipality itself, if the MEC for local government in a province becomes aware that there is a serious financial problem in a municipality, the MEC must promptly

- consult the mayor of the municipality to determine the facts
- assess the seriousness of the situation and the municipality's response to the situation
- determine whether the situation justifies or requires an intervention in terms of section 139 of the Constitution.

If the financial problem has been caused by or has resulted in a failure by the municipality to comply with an executive obligation in terms of legislation or the Constitution, and the conditions for an intervention in terms of section 139(1) of the Constitution are met, the provincial executive must promptly decide whether or not to intervene in the municipality. If the provincial executive decides to intervene, section 137 of the MFMA applies. In cases where the municipality has failed to approve a budget or any revenue-raising measures necessary to give effect to the budget, as a result of which the conditions for an intervention in terms of section 139 (4) of the Constitution are met, the provincial executive must intervene in the municipality in accordance with section 26 of the MFMA. Finally, if the municipality, as a result of a

²⁷³ The MFMA s 133(2)(a)-(b).

²⁷⁴ Read the MFMA s 134.

²⁷⁵ See the MFMA s 135(1)-(3).

crisis in its financial affairs, is in serious or persistent material breach of its obligations to provide basic services or to meet its financial commitments or admits that it is unable to meet its obligations or financial commitments, as a result of which the conditions for an intervention in terms of section 139(5) of the Constitution are met, the provincial executive must intervene in the municipality in accordance with section 139 of the MFMA.²⁷⁶

If the conditions for a provincial intervention in a municipality in terms of section 139(1) of the Constitution are met and the provincial executive decides in terms of section 136(2) of the MFMA to intervene in the municipality, the provincial executive may take any appropriate steps referred to in section 139 (1) of the Constitution, including:

- (a) assessing the seriousness of the financial problem in the municipality;
- (b) seeking solutions to resolve the financial problem in a way that would be sustainable and would build the municipality's capacity to manage its own financial affairs;
- (c) determining whether the financial problem, singly or in combination with other problems, is sufficiently serious or sustained that the municipality would benefit from a financial recovery plan and, if so, requesting any suitably qualified person:
 - (i) to prepare an appropriate financial recovery plan for the municipality;
 - (ii) to recommend appropriate changes to the municipality's budget and revenue-raising measures that will give effect to the recovery plan; and
 - (iii) to submit the recovery plan and any recommendations referred to in subparagraphs (i) and (ii) to the MEC for local government in the province within a period determined by the MEC; and
- (d) consulting the mayor of the municipality to obtain the municipality's cooperation in resolving the financial problem, and if applicable, implementing the financial recovery plan.²⁷⁷

²⁷⁶ See the MFMA s 136(1)-(4).

²⁷⁷ Note that the MEC must submit any assessment in terms of ss 137(1)(a), any determination in terms of ss (1)(c) and a copy of any request in terms of ss (1)(c) to the municipality and the Cabinet member responsible for local government. This obligation does not apply to a provincial intervention which is unrelated to a financial problem in a municipality. See the MFMA s 137(1)-(3).

When determining for the purposes of section 137 of the MFMA the seriousness of a financial problem, all relevant facts must be considered, and the following factors, singly or in combination, may indicate a serious financial problem:

- (a) The municipality has failed to make payments as and when due;
- (b) the municipality has defaulted on financial obligations for financial reasons;
- (c) the actual current expenditure of the municipality has exceeded the sum of its actual current revenue plus available surpluses for at least two consecutive financial years;
- (d) the municipality had an operating deficit in excess of five per cent of revenue in the most recent financial year for which financial information is available;
- (e) the municipality is more than 60 days late in submitting its annual financial statements to the Auditor-General in accordance with section 126 of the MFMA;
- (f) the Auditor-General has withheld an opinion or issued a disclaimer due to inadequacies in the financial statements or records of the municipality, or has issued an opinion which identifies a serious financial problem in the municipality;
- (g) any of the above conditions exists in a municipal entity under the municipality's sole control, or in a municipal entity for whose debts the municipality may be responsible, and the municipality has failed to intervene effectively; or
- (h) any other material condition exists which indicates that the municipality, or a municipal entity under the municipality's sole control, is likely to be unable for financial reasons to meet its obligations.²⁷⁸

The MFMA also provides for mandatory intervention by provincial governments into the affairs of a municipality. If a municipality, as a result of a crisis in its financial affairs, is in serious or persistent material breach of its obligations to provide basic services or to meet its financial commitments, or admits that it is unable to meet its obligations or financial commitments, the provincial executive must promptly:

- (a) request the Municipal Financial Recovery Service-
 - (i) to determine the reasons for the crisis in its financial affairs;
 - (ii) to assess the municipality's financial state;

²⁷⁸ Read the MFMA s 138(a)-(h).

- (iii) to prepare an appropriate recovery plan for the municipality;
- (iv) to recommend appropriate changes to the municipality's budget and revenue-raising measures that will give effect to the recovery plan; and
- (v) to submit to the MEC for finance in the province:
 - (aa) the determination and assessment referred to in subparagraphs (i) and (ii) as a matter of urgency; and
 - (bb) the recovery plan and recommendations referred to in subparagraphs (iii) and (iv) within a period, not to exceed 90 days, determined by the MEC for finance; and
- (b) consult the mayor of the municipality to obtain the municipality's co-operation in implementing the recovery plan, including the approval of a budget and legislative measures giving effect to the recovery plan.²⁷⁹

The MEC for finance in the province must submit a copy of any request in terms of subsection 139(1)(a) of the MFMA and of any determination and assessment received in terms of subsection 139(1)(a)(v)(aa) of the Act to the municipality, the Cabinet member responsible for local government and the Minister of Finance. A mandatory intervention supersedes any discretionary provincial intervention, provided that any financial recovery plan prepared for the discretionary intervention must continue until replaced by a recovery plan for the mandatory intervention.²⁸⁰

The new financial dispensation also provides certain criteria for determining the seriousness or persistent material breach of financial commitments. When determining whether the conditions for a mandatory intervention referred to in section 139 of the MFMA are met, all relevant facts must be considered. The following factors, singly or in combination, may indicate that a municipality is in serious material breach of its obligations to meet its financial commitments:

- (a) The municipality has failed to make any payment to a lender or investor as and when due;
- (b) the municipality has failed to meet a contractual obligation which provides security in terms of section 48 of the MFMA;
- (c) the municipality has failed to make any other payment as and when due, which individually or in the aggregate is more than an amount as may be pre-

²⁷⁹ See the MFMA s 139(1)(a)-(b).

²⁸⁰ See the MFMA s 139(2)-(3).

scribed or, if none is prescribed, more than two per cent of the municipality's budgeted operating expenditure; or

(d) the municipality's failure to meet its financial commitments has impacted, or is likely to impact, on the availability or price of credit to other municipalities.²⁸¹

Any recurring or continuous failure by a municipality to meet its financial commitments which substantially impairs the municipality's ability to procure goods, services or credit on usual commercial terms, may indicate that the municipality is in persistent material breach of its obligations to meet its financial commitments.²⁸²

In respect of the preparation of a financial recovery plan, the MFMA determines that any suitably qualified person may, on request by the provincial executive, prepare a financial recovery plan for a discretionary provincial intervention referred to in section 137 of the MFMA. Only the Municipal Financial Recovery Service may prepare a financial recovery plan for a mandatory provincial intervention referred to in section 139 of the MFMA. When preparing a financial recovery plan, the person referred to in subsection 141(1) of the Act or the Municipal Financial Recovery Service must:

(a) consult:

- (i) the relevant municipality;
- (ii) the municipality's principal suppliers and creditors, to the extent they can reasonably be contacted;
- (iii) the MEC for finance and the MEC for local government in the province; and
- (iv) organised labour;

(b) take into account:

- (i) any financial recovery plan that has previously been prepared for the municipality; and
- (ii) any proposed financial recovery plan, or proposals for a financial recovery plan, that may be advanced by the municipality or any creditor of the municipality; and

(c) at least 14 days before finalising the plan:

- (i) submit the plan for comment to:

²⁸¹ The MFMA s 140(1)-(2).

²⁸² Note that s 140(2) and (3) do not apply to disputed obligations to which there are pending legal actions between the municipality and the creditor, provided that such actions are not instituted to avoid an intervention or obligations explicitly waived by the creditor.

- (aa) the municipality;
 - (bb) the MEC for finance and the MEC for local government in the province;
 - (cc) organised local government in the province;
 - (dd) organised labour; and
 - (ee) any supplier or creditor of the municipality, on request; and
- (ii) publish a notice in a newspaper of general circulation in the municipality:
- (aa) stating the place, including any website address, where copies of the plan will be available to the public free of charge or at a reasonable price; and
 - (bb) inviting the local community to submit written comments in respect of the plan.²⁸³

The person charged with preparing the financial recovery plan or the Municipal Financial Recovery Service must

- consider any comments received
- finalise the financial recovery plan and
- submit the final plan to the MEC for finance in the province for approval in terms of section 143 of the MFMA.²⁸⁴

A financial recovery plan must be aimed at securing the municipality's ability to meet its obligations to provide basic services or its financial commitments, and such a plan, whether for a mandatory or discretionary intervention, must:

- identify the financial problems of the municipality
- be designed to place the municipality in a sound and sustainable financial condition as soon as possible
- state the principal strategic objectives of the plan, and ways and means for achieving those objectives
- set out a specific strategy for addressing the municipality's financial problems, including a strategy for reducing unnecessary expenditure and increasing the collection of revenue, as may be necessary
- identify the human and financial resources needed to assist in resolving financial problems, and where those resources are proposed to come from

²⁸³ The MFMA s 141(1)-(3).

²⁸⁴ Read the MFMA s 141(4)(a)-(c).

- describe the anticipated time frame for financial recovery, and milestones to be achieved and
- identify what actions are necessary for the implementation of the plan, distinguishing between actions to be taken by the municipality and actions to be taken by other parties.²⁸⁵

The plan may also:

- provide for the liquidation of specific assets, excluding those needed for the provision of the minimum level of basic municipal services
- provide for debt restructuring or debt relief in accordance with the MFMA
- provide for special measures to prevent unauthorised, irregular and fruitless and wasteful expenditures and other losses and
- identify any actual and potential revenue sources.²⁸⁶

In addition, a financial recovery plan

- for a mandatory intervention must
 - (a) set spending limits and revenue targets
 - (b) provide budget parameters which bind the municipality for a specified period or until stated conditions have been met and
 - (c) identify specific revenue-raising measures that are necessary for financial recovery, including the rate at which any municipal tax and tariffs must be set to achieve financial recovery and
- for a discretionary intervention may suggest, for adoption by the municipality,
 - (a) spending limits and revenue targets
 - (b) budget parameters for a specified period or until stated conditions have been met and (c) specific revenue-raising measures that are necessary for financial recovery.²⁸⁷

On receipt of a financial recovery plan pursuant to a discretionary intervention, the MEC for local government in the province may approve the recovery plan with or without amendments, as the MEC considers appropriate. On receipt of a financial recovery plan pursuant to a mandatory intervention, the MEC for finance must verify that the process set out in section 141 of the MFMA has been followed and that the

²⁸⁵ See the MFMA s 142(1)(a)(i)-(vii).

²⁸⁶ The MFMA s 142(1)(b)(i)-(iv).

²⁸⁷ Read the MFMA s 142(2)(a)-(b).

criteria contained in section 142 of the Act are met and if so approve the recovery plan or if not direct what defects must be rectified. The responsible MEC must submit an approved recovery plan to the municipality, the Minister and the Cabinet member responsible for local government, the Auditor-General and organised local government in the province.²⁸⁸

The MEC for local government or the MEC for finance in the province may at any time, but subject to section 141(1) and (2) of the MFMA, request any suitably qualified person or the Municipal Financial Recovery Service to prepare an amended financial recovery plan in accordance with the directions of the MEC. Section 141 of the Act, read with such changes as the context may require, apply to the amendment of a financial recovery plan in terms of this section. No amendment of a recovery plan may impede the implementation of any court order made or agreement reached in terms of the plan before the amendment.²⁸⁹

If a financial recovery plan was prepared in a discretionary provincial intervention, the municipality must implement the approved recovery plan and report monthly to the MEC for local government in the province on the implementation of the plan, in such manner as the plan may determine. The financial recovery plan binds the municipality in the exercise of its executive authority, but only to the extent to resolve the financial problems of the municipality. If the municipality cannot or does not implement the approved recovery plan, the provincial executive may in terms of section 139(1) or (4) of the Constitution take further appropriate steps to ensure implementation of the plan.²⁹⁰ If the recovery plan was prepared in a mandatory provincial intervention referred to in section 139 of the MFMA

- the municipality must implement the approved recovery plan
- all revenue, expenditure and budget decisions must be taken within the framework of, and subject to the limitations of, the recovery plan and
- the municipality must report monthly to the MEC for finance in the province on the implementation of the plan in such manner as the plan may determine.

The financial recovery plan binds the municipality in the exercise of both its legislative and executive authority, including the approval of a budget and legislative meas-

²⁸⁸ See the MFMA s 143(1)-(3).

²⁸⁹ See the MFMA s 144(1)-(3).

²⁹⁰ Note that the Municipal Structures Act ss 34(3) and (4) and 35 apply if a provincial executive dissolves a municipal council in terms of s (3). See also the MFMA s 145(1)-(4).

ures giving effect to the budget, but only to the extent necessary to achieve the objectives of the recovery plan. The provincial executive must in terms of section 139(5)(b) of the Constitution either

- dissolve the council of the municipality, if the municipality cannot or does not approve legislative measures, including a budget or any revenue-raising measures necessary to give effect to the recovery plan within the time frames specified in the plan and
 - (a) appoint an administrator until a newly elected council has been declared elected and
 - (b) approve a temporary budget and revenue-raising measures, and other measures to give effect to the recovery plan and to provide for the continued functioning of the municipality.
- assume responsibility for the implementation of the recovery plan to the extent that the municipality cannot or does not take executive measures to give effect to the recovery plan.²⁹¹

At least every three months the MEC for local government or the MEC for finance in a province must review any discretionary provincial intervention referred to in section 137 or any mandatory provincial intervention referred to in section 139 of the MFMA, including progress with resolving the municipality's financial problems and its financial recovery and the effectiveness of any financial recovery plan. He/she must also submit progress reports and a final report on the intervention to the municipality, the Minister, the Cabinet member responsible for local government, the provincial legislature and organised local government in the province.²⁹² A discretionary intervention must end if it is terminated in terms of section 139(2)(b) of the Constitution or when the municipality is able and willing to fulfil the executive obligation in terms of legislation or the Constitution that gave rise to the intervention and the financial problem that has been caused by or has caused the failure by the municipality to comply with that obligation is resolved.²⁹³ A mandatory intervention must end when the crisis in the municipality's financial affairs has been resolved and the municipality's ability to

²⁹¹ See the MFMA s 146(1)-(4). The Municipal Structures Act ss 34(3) and (4) and 35 apply when a provincial executive dissolves a municipal council in terms of the Constitution s 139(5)(b)(i).

²⁹² The MEC for local government or the MEC for finance may request the person who prepared the recovery plan, or the Municipal Financial Recovery Service, to assist the MEC in complying with s 147(1). See the MFMA s 147(1)-(2).

²⁹³ The MFMA s 148(1)(a)-(b).

meet its obligations to provide basic services or its financial commitments is secured.²⁹⁴

When a provincial intervention ends, the MEC for local government or the MEC for finance in the province must notify:

- (a) the municipality;
- (b) the Minister, in the case of a mandatory intervention;
- (c) the Cabinet member responsible for local government;
- (d) any creditors having pending litigation against the municipality;
- (e) the provincial legislature; and
- (f) organised local government in the province.²⁹⁵

In respect of national interventions, the MFMA determines that if the conditions for a provincial intervention in a municipality in terms of section 139(4) or (5) of the Constitution are met and the provincial executive cannot or does not adequately exercise the powers or perform the functions referred to in that section, then the national executive must consult the relevant provincial executive and act or intervene in terms of that section in the stead of the provincial executive. If the national executive intervenes in a municipality in terms of subsection 150(1) of the MFMA, then:

- (a) the national executive assumes for the purposes of the intervention the functions and powers of a provincial executive in terms of this chapter;
- (b) the Minister assumes for the purposes of the intervention the functions and powers of an MEC for finance in terms of this chapter; and
- (c) a reference in this chapter:
 - (i) to a provincial executive must be read as a reference to the national executive;
 - (ii) to an MEC for finance must be read as a reference to the Minister; and
 - (iii) to a provincial intervention must be read as a reference to a national intervention.²⁹⁶

²⁹⁴ See the MFMA s 148(2)(a)-(b).

²⁹⁵ Read the MFMA s 148(3)(a)-(f). Note that if a provincial executive intervenes in a municipality in terms of the Constitution s 139, the provincial executive and its representatives have access to such information, records and documents of the municipality or of any municipal entity under the sole or shared control of the municipality as may be necessary for the intervention, including for identifying or resolving the financial problem of the municipality. Refer also to the MFMA s 149.

²⁹⁶ See the MFMA s 150(1)-(2).

Apart from the possibility of national interventions, the MFMA also protects the rights of third parties. The MFMA determines that, except as expressly provided for in the Act, nothing in the Act limits or affects:

- the rights of any creditor or other person having a claim against a municipality
- any person's access to ordinary legal process in accordance with the common law and relevant legislation or
- the rights of a municipality or municipal entity, or of the parties to a contract with a municipality or municipal entity, to alternative dispute resolution mechanisms, notice procedures and other remedies, processes or procedures.²⁹⁷

Furthermore, if a municipality is unable to meet its financial commitments, it may apply to the High Court for an order to stay, for a period not exceeding 90 days, all legal proceedings, including the execution of legal process, by persons claiming money from the municipality or a municipal entity under the sole control of the municipality. Notice of such an application must be given to:

- the MEC for local government and the MEC for finance in the province
- the Minister
- the Cabinet member responsible for local government
- organised local government and
- to the extent that they can reasonably be contacted, all persons to whom the municipality or the municipal entity owes an amount in excess of a prescribed amount, or if no amount is prescribed, in excess of R100 000.²⁹⁸

A municipality may also apply to the High Court for an order:

- to stay, for a period not exceeding 90 days at a time, all legal proceedings, including the execution of legal process, by persons claiming money from the municipality
- to suspend the municipality's financial obligations to creditors, or any portion of those obligations, until the municipality can meet those obligations or
- to terminate the municipality's financial obligations to creditors, and to settle claims in accordance with a distribution scheme referred to in section 155.²⁹⁹

²⁹⁷ The MFMA ss 151(a)-(c).

²⁹⁸ Note that an application in terms of s 152(1) may for the purposes of the Constitution s 139(5) be regarded as an admission by the municipality that it is unable to meet its financial commitments. See the MFMA s 152(1)-(3).

²⁹⁹ The MFMA s 153(1)(a)-(c).

The court may make an order in terms of subsection 153(1) of the MFMA only if

- the provincial executive has intervened in terms of section 139 and a financial recovery plan to restore the municipality to financial health has been approved for the municipality
- the financial recovery plan is likely to fail without the protection of such an order
- section 154 of the MFMA has been complied with, in the case of an application for an order referred to in subsection 153(1)(b) and
- section 155(1) has been complied with, in the case of an application for an order referred to in subsection 153(1)(c).³⁰⁰

Notice of an application in terms of subsection 153(1) must be given to

- all creditors to whom the municipality owes an amount in excess of a prescribed amount, or if no amount is prescribed, in excess of R100 000, insofar as those creditors can reasonably be contacted
- the MEC for finance and the MEC for local government in the province
- the Minister
- the Cabinet member responsible for local government and
- organised labour.³⁰¹

Before issuing an order in terms of section 153(1)(b) of the MFMA for the suspension of a municipality's financial obligations to creditors, the court must be satisfied that

- the municipality cannot currently meet its financial obligations to creditors and
- all assets not reasonably necessary to sustain effective administration or to provide the minimum level of basic municipal services have been or are to be liquidated in accordance with the approved financial recovery plan for the benefit of meeting creditors' claims.³⁰²

Before issuing an order for the termination of a municipality's financial obligations to creditors in terms of section 153(1)(c) of the MFMA, the court must be satisfied that

- the municipality cannot meet its financial obligations to its creditors and is not likely to be able to do so in the foreseeable future
- all assets not reasonably necessary to sustain effective administration or to provide the minimum level of basic municipal services have been liquidated in accor-

³⁰⁰ The MFMA s 153(2)(a)-(d).

³⁰¹ Read the MFMA s 153(3)(a)-(e).

³⁰² Refer to the MFMA s 154(a)-(b).

dance with the approved financial recovery plan for the benefit of meeting creditors' claims and

- all employees have been discharged except those affordable in terms of reasonably projected revenues as set out in the approved financial recovery plan.

If the court issues an order referred to subsection 155(1) of the Act, the MEC for finance in the province must appoint a trustee to prepare a distribution scheme for the proportional settlement of all legitimate claims against the municipality as at the date of the order. Those claims must be settled against the amount realised from the liquidation of assets referred to in subsection 155(1)(b) of the Act.³⁰³

A distribution scheme must

- determine the amount available for distribution
- list all creditors with claims which qualify for the purposes of the distribution scheme, indicating which of those are secured and the manner in which they are secured and
- provide for the distribution of the amount available amongst creditors in the following order of preference:
 - (i) First preference must be given to the rights of secured creditors as to the assets with which they are secured in terms of section 48, provided the security in question was given in good faith and at least six months before the mandatory provincial intervention in terms of section 139 began;
 - (ii) thereafter the preferences provided for in the Insolvency Act,³⁰⁴ read with the necessary changes as the context may require, must be applied; and
 - (iii) thereafter non-preferent claims must be settled in proportion to the amount of the different claims.³⁰⁵

The Minister, acting with the concurrence of the Cabinet member responsible for local government, must by regulation in terms of section 168 of the MFMA provide for an equitable process for the recognition of claims against a municipality for the purposes of sharing in a distribution scheme, provided that rejection of any claim does not prevent a creditor from proving the claim in a court and provide for public

³⁰³ See the MFMA s 155(1)-(2).

³⁰⁴ 24 of 1936.

³⁰⁵ Note that a distribution scheme may not be implemented unless approved by the court. See the MFMA s 155(3)-(4).

access to a distribution scheme.³⁰⁶ The MFMA also establishes a so-called Municipal Financial Recovery Service (MFRS). According to section 157 of the Act a Municipal Financial Recovery Service is established as an institution within the public service. The Municipal Financial Recovery Service forms part of, and functions within, the National Treasury.³⁰⁷ The Municipal Financial Recovery Service:

- must perform the duties and may exercise the powers assigned to the Service in terms of this Act
- may, on request by the MEC for finance in a province, prepare a financial recovery plan for a municipality or, with the approval of the Director-General of the National Treasury, instruct any suitably qualified person to prepare the plan in accordance with the directions of the Service
- may, on request by the MEC for finance in the province, monitor the implementation of any financial recovery plans that it has prepared, and may recommend such amendments and revisions as are appropriate
- may, on request by any municipality that is experiencing financial problems, and in co-ordination with any other provincial or national efforts, assist the municipality to identify the causes of, and potential solutions for, these financial problems
- may, with the approval of the Director-General of the National Treasury, obtain the services of any financial expert to perform any specific work for the Service; and
- may collect information on municipal financial problems and on best practices in resolving such problems.³⁰⁸

It is the responsibility of the Minister of Finance to appoint a person as the Head of the MFRS, subject to subsection 159(2) of the MFMA and legislation governing the public service. A person appointed as the Head of the Service holds office in the National Treasury on terms and conditions set out in a written employment contract, which must include terms and conditions setting performance standards.³⁰⁹ The Head of the Service is responsible for the performance by the Service of its functions and the exercise of its powers and takes all decisions of the Service in the performance of its functions and the exercise of its powers, except those decisions of the

³⁰⁶ The MFMA s 156(a)-(b).

³⁰⁷ Read the MFMA s 157(1)-(2).

³⁰⁸ See the MFMA s 158(a)-(f).

³⁰⁹ The MFMA s 159(1)-(2).

Service taken in consequence of a delegation in terms of section 162 of the Act.³¹⁰ The staff of the Municipal Financial Recovery Service consists of the Head of the Service, persons in the service of or contracted by the National Treasury and designated by the Director-General of the National Treasury for the work of the Service and persons seconded from an organ of state or organisation to the Service by agreement between the Director-General and that organ of state or organisation.³¹¹ Finally, the Head of the Service may delegate any of the powers or duties of the Service to a member of the staff of the Service. Such a delegation must be in writing, is subject to the limitations or conditions which the Head of the Service may impose and does not divest the Head of the Service of the responsibility concerning the exercise of the delegated power or the performance of the delegated duty. The Head of the Service may confirm, vary or revoke any decision taken in consequence of a delegation in terms of subsection 162(1), provided that no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.³¹²

(m) General treasury matters, financial misconduct and miscellaneous provisions

No municipality or municipal entity may incur a liability or risk payable in a foreign currency. Subsection 163(1) does not apply to debt regulated in terms of section 47 of the MFMA or to the procurement of goods or services denominated in a foreign currency but the Rand value of which is determined at the time of procurement or, where this is not possible and risk is low, at the time of payment.³¹³ Furthermore, no municipality or municipal entity may:

- conduct any commercial activities
 - (a) otherwise than in the exercise of the powers and functions assigned to it in terms of the Constitution or national or provincial legislation
 - (b) outside the borders of the Republic
- provide a municipal service in an area outside its jurisdiction except with the approval of the council of the municipality having jurisdiction in that area or

³¹⁰ Note that the Head of the Service performs the functions of office subject to the directions of the Director-General of the National Treasury. Read the MFMA s 160(1)-(2).

³¹¹ Refer to the MFMA s 161(a)-(c).

³¹² Read the MFMA s 162(1)-(3).

³¹³ The MFMA s 163(1)-(2).

- make loans to
 - (a) councillors or officials of the municipality;
 - (b) directors or officials of the entity or
 - (c) members of the public.³¹⁴

Each municipality and each municipal entity must have an internal audit unit, subject to subsection 165(3) of the MFMA. The internal audit unit of a municipality or municipal entity must:

- prepare a risk-based audit plan and an internal audit program for each financial year
- advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management, performance management, loss control and compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation and
- perform such other duties as may be assigned to it by the accounting officer.³¹⁵

Apart from an internal audit unit, each municipality and each municipal entity must have an audit committee, subject to subsection 166(6) of the MFMA. An audit committee is an independent advisory body which must:

- advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality or the board of directors, the accounting officer and the management staff of the municipal entity on matters relating to:
 - (a) internal financial control and internal audits
 - (b) risk management
 - (c) accounting policies
 - (d) the adequacy, reliability and accuracy of financial reporting and information
 - (e) performance management
 - (f) effective governance

³¹⁴ Note that if on the date on which this section takes effect a municipality or municipal entity is engaged in any activity prohibited by s 164(1)(a) or (b) and which is otherwise lawful, the municipality or entity must take all reasonable steps to rectify its position and to comply with that subsection as soon as may be reasonable in the circumstances. See the MFMA s 164(1)-(2).

³¹⁵ The internal audit function may be outsourced if the municipality or municipal entity requires assistance to develop its internal capacity and the council of the municipality or the board of directors of the entity has determined that this is feasible or cost-effective. Read the MFMA s 165(1)-(3).

- (g) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation
- (h) performance evaluation and
- (i) any other issues referred to it by the municipality or municipal entity
- review the annual financial statements to provide the council of the municipality or, in the case of a municipal entity, the council of the parent municipality and the board of directors of the entity, with an authoritative and credible view of the financial position of the municipality or municipal entity, its efficiency and effectiveness and its overall level of compliance with this Act, the annual Division of Revenue Act and any other applicable legislation
- respond to the council on any issues raised by the Auditor-General in the audit report
- carry out such investigations into the financial affairs of the municipality or municipal entity as the council of the municipality, or in the case of a municipal entity, the council of the parent municipality or the board of directors of the entity may request and
- perform such other functions as may be prescribed.³¹⁶

In performing its functions, an audit committee has access to the financial records and other relevant information of the municipality or municipal entity and must liaise with the internal audit unit of the municipality and the person designated by the Auditor-General to audit the financial statements of the municipality or municipal entity. An audit committee must also consist of at least three persons with appropriate experience, of whom the majority may not be in the employ of the municipality or municipal entity and meet as often as is required to perform its functions, but at least four times a year.³¹⁷

A municipality may remunerate its political office-bearers and members of its political structures, but only within the framework of the Public Office-Bearers Act,³¹⁸

³¹⁶ The MFMA s 166(1)-(2).

³¹⁷ Note that the members of an audit committee must be appointed by the council of the municipality or, in the case of a municipal entity, by the council of the parent municipality. One of the members who is not in the employ of the municipality or municipal entity must be appointed as the chairperson of the committee. No councillor may be a member of an audit committee. Furthermore, a single audit committee may be established for a district municipality and the local municipalities within that district municipality and a municipality and municipal entities under its sole control. See the MFMA s 166(3)-(6).

³¹⁸ 20 of 1998.

setting the upper limits of the salaries, allowances and benefits for those political office-bearers and members and in accordance with section 219(4) of the Constitution. Any remuneration paid or given in cash or in kind to a person as a political office-bearer or as a member of a political structure of a municipality otherwise than in accordance with subsection 167(1) of the MFMA, including any bonus, bursary, loan, advance or other benefit, is an irregular expenditure, and the municipality must, and has the right to, recover that remuneration from the political office-bearer or member and may not write off any expenditure incurred by the municipality in paying or giving that remuneration.³¹⁹

Relating to treasury regulations and guidelines, the MFMA determines that the Minister of Finance, acting with the concurrence of the Cabinet member responsible for local government, may make regulations or guidelines applicable to municipalities and municipal entities, regarding:

- (a) any matter that may be prescribed in terms of this act;
- (b) financial management and internal control;
- (c) a framework for regulating the exercise of municipal fiscal and tariff-fixing powers;
- (d) a framework regulating the financial commitments of municipalities and municipal entities in terms of public-private partnership agreements;
- (e) the establishment by municipalities of, and control over-
 - (i) municipal entities; and
 - (ii) business units contemplated in section 76(a)(ii) of the Municipal Systems Act;
- (f) the safe-guarding of the financial affairs of municipalities and of municipal entities when assets, liabilities or staff are transferred from or to a municipality or a municipal entity;
- (g) the alienation, letting or disposal of assets by municipalities or municipal entities;
- (h) internal audit units and their functioning;

³¹⁹ See the MFMA s 167(1)-(3). The MEC for local government in a province must report to the provincial legislature any transgressions of ss 167(1) and any non-compliance with the MFMA ss 17(3)(k)(i) and (ii) and 124(1)(a).

- (i) the information to be disclosed when municipalities or municipal entities issue or incur debt and the manner in which such information must be disclosed, including by way of a prospectus or other document;
- (j) the circumstances under which further or specific disclosures are required after money has been borrowed by a municipality or municipal entity;
- (k) the circumstances under which documentation or information pertaining to municipal debt must be lodged or registered;
- (l) the establishment of a registry for the registration of documentation and information pertaining to municipal borrowing;
- (m) the settlement of claims against a municipality following an order of court in terms of section 153;
- (n) the information that must be placed on the websites of municipalities;
- (o) a framework regulating investments by municipal entities; and
- (p) any other matter that may facilitate the enforcement and administration of this act.³²⁰

A regulation or guideline may:

- differentiate between different
 - (a) kinds of municipality, which may, for the purposes of this section, be defined either in relation to categories, types or budgetary size of municipalities or in any other manner
 - (b) categories of municipal entity
 - (c) categories of accounting officer or
 - (d) categories of official or
- may be limited in its application to a particular:
 - (a) kind of municipality, which may, for the purposes of this section, be defined either in relation to a category, type or budgetary size of municipality or in any other manner
 - (b) category of municipal entity
 - (c) category of accounting officer or
 - (d) category of official.³²¹

³²⁰ the MFMA s 168(1)(a)-(p).

³²¹ The MFMA s 168(2)(a)-(b). No guidelines issued in terms of ss (1) are binding on a municipality unless adopted by its council or a municipal entity unless adopted by the council of the entity's parent municipality. The MFMA s 168(3)(a)-(b).

Before regulations in terms of section 168 of the MFMA are promulgated, the Minister must consult organised local government on the substance of those regulations and publish the draft regulations in the *Government Gazette* for public comment. Regulations made must be submitted to Parliament for parliamentary scrutiny at least 30 days before their promulgation.³²² The National Treasury may on good grounds approve a departure from a treasury regulation or from any condition imposed in terms of the Act. Non-compliance with a regulation or with a condition imposed by the National Treasury in terms of the Act may, on good grounds shown, be condoned by the Treasury.³²³

The MFMA also provides for aspects regarding the financial misconduct by municipal officials and entities. The Act thus provides that the accounting officer of a municipality commits an Act of financial misconduct if that accounting officer deliberately or negligently:

- (a) contravenes a provision of the act;
- (b) fails to comply with a duty imposed by a provision of the act on the accounting officer of a municipality;
- (c) makes or permits, or instructs another official of the municipality to make, an unauthorised, irregular or fruitless and wasteful expenditure; or
- (d) provides incorrect or misleading information in any document which in terms of a requirement of the act must be (i) submitted to the mayor or the council of the municipality, or to the Auditor-General, the National Treasury or other organ of state; or (ii) made public.³²⁴

Furthermore, the chief financial officer of a municipality commits an act of financial misconduct if that officer deliberately or negligently:

- (a) fails to carry out a duty delegated to that officer in terms of section 79 or 81(1)(e) of the MFMA;
- (b) contravenes or fails to comply with a condition of any delegation of a power or duty in terms of section 79 or 81(1)(e) of the MFMA;
- (c) makes or permits, or instructs another official of the municipality to make, an unauthorised, irregular or fruitless and wasteful expenditure; or

³²² Read the MFMA s 169(1)-(2).

³²³ The MFMA s 170(1)-(2).

³²⁴ See the MFMA s 171(1)(a)-(d).

(d) provides incorrect or misleading information to the accounting officer for the purposes of a document referred to in subsection 171(1)(d) of the MFMA.³²⁵

A senior manager or other official of a municipality exercising financial management responsibilities and to whom a power or duty was delegated in terms of section 79 of the MFMA commits an act of financial misconduct if that senior manager or official deliberately or negligently:

- fails to carry out the delegated duty
- contravenes or fails to comply with a condition of the delegated power or duty
- makes an unauthorised, irregular or fruitless and wasteful expenditure or
- provides incorrect or misleading information to the accounting officer for the purposes of a document referred to in subsection 171(1)(d) of the Act.

A municipality must investigate allegations of financial misconduct against the accounting officer, the chief financial officer, a senior manager or other official of the municipality unless those allegations are frivolous, vexatious, speculative or obviously unfounded. If the investigation warrants such a step, a municipality must institute disciplinary proceedings against the accounting officer, chief financial officer or that senior manager or other official in accordance with systems and procedures referred to in section 67 of the Municipal Systems Act, read with Schedule 2 of that Act.³²⁶

In respect of offences, it is determined that the accounting officer of a municipality is guilty of an offence if that accounting officer:

- deliberately or in a grossly negligent way:
 - (a) contravenes or fails to comply with a provision of section 61(2)(b), 62(1), 63(2)(a) or (c), 64(2)(a) or (d) or 65(2)(a), (b), (c), (d), (f) or (i) of the MFMA
 - (b) fails to take reasonable steps to implement the municipality's supply chain management policy referred to in section 111
 - (c) fails to take all reasonable steps to prevent unauthorised, irregular or fruitless and wasteful expenditure or
 - (d) fails to take all reasonable steps to prevent corruptive practices:
 - (i) in the management of the municipality's assets or receipt of money or

³²⁵ Read the MFMA s 171(2)(a)-(d).

³²⁶ See the MFMA s 171(3)-(4). Similar requirements have been laid down regarding financial misconduct by officials of municipal entities. See the MFMA s 172(1)-(4).

(ii) in the implementation of the municipality's supply chain management policy

- deliberately misleads or withholds information from the Auditor-General on any bank accounts of the municipality or on money received or spent by the municipality or
- deliberately provides false or misleading information in any document which in terms of a requirement of this Act must be:
 - (a) submitted to the Auditor-General, the National Treasury or any other organ of state or
 - (b) made public.³²⁷

A senior manager or other official of a municipality or municipal entity exercising financial management responsibilities and to whom a power or duty was delegated in terms of section 79 or 106 of the MFMA is guilty of an offence if that senior manager or official deliberately or in a grossly negligent way contravenes or fails to comply with a condition of the delegation. A councillor of a municipality is guilty of an offence if that councillor:

- (a) deliberately influences or attempts to influence the accounting officer, the chief financial officer, a senior manager or any other official of the municipality to contravene a provision of the act or to refrain from complying with a requirement of the act;
- (b) interferes in the financial management responsibilities or functions assigned in terms of the act to the accounting officer of the municipality or delegated to the chief financial officer of the municipality in terms of the act;
- (c) interferes in the financial management responsibilities or functions assigned in terms of the act to the accounting officer of a municipal entity under the sole or shared control of the municipality; or
- (d) interferes in the management or operational activities of a municipal entity under the sole or shared control of the municipality.³²⁸

A councillor, an official of a municipality or municipal entity, a member of the board of directors of a municipal entity or any other person is guilty of an offence if that per

³²⁷ See the MFMA s 173(1)(a)-(c). Similar offences are created for the accounting officer of a municipal entity. See the MFMA s 173(2)(a)-(c).

³²⁸ See the MFMA s 173(2).

son deliberately or in a grossly negligent way:

- impedes an accounting officer from complying with a provision of the Act
- gives incorrect, untrue or misleading information material to an investment decision relating to borrowing by a municipality or municipal entity
- makes a withdrawal in contravention of section 11 of the MFMA
- fails to comply with section 49 of the Act
- contravenes a provision of section 115(2), 118 or 126(5) of the Act or
- provides false or misleading information for the purposes of any document which must in terms of a requirement of the Act be:
 - (a) submitted to the council, mayor or accounting officer of a municipality or to the Auditor-General or the National Treasury or
 - (b) made public.³²⁹

A person is liable on conviction of an offence in terms of section 173 of the MFMA to imprisonment for a period not exceeding five years or to an appropriate fine determined in terms of applicable legislation.³³⁰

The Minister, acting with the concurrence of the Cabinet member responsible for local government, may make regulations prescribing:

- (a) the manner, form and circumstances in which allegations and disciplinary and criminal charges of financial misconduct must be reported to the National Treasury, the MEC for local government in the province and the Auditor-General, including (i) particulars of the alleged financial misconduct; and (ii) steps taken in connection with such financial misconduct;
- (b) matters relating to internal investigations by municipalities and municipal entities of allegations of financial misconduct;
- (c) the circumstances in which the National Treasury or the MEC for local government in the province may direct that disciplinary steps be taken or criminal charges be laid against a person for financial misconduct;
- (d) criteria for the composition and functioning of a disciplinary board which hears a charge of financial misconduct;

³²⁹ Refer to the MFMA s 173(3)-(5).

³³⁰ The MFMA s 174.

- (e) the circumstances in which the findings of a disciplinary board and any sanctions imposed by the board must be reported to the National Treasury, the MEC for local government in the province and the Auditor-General; and
- (f) any other matters to the extent necessary to enforce the provisions of the act.

A regulation in terms of subsection (1) may:

- differentiate between different:
 - (a) kinds of municipality, which may, for the purposes of this section, be defined either in relation to categories, types or budgetary size of municipalities or in any other manner
 - (b) categories of municipal entity
 - (c) categories of accounting officer or
 - (d) categories of other official or
- be limited in its application to a particular:
 - (a) kind of municipality, which may, for the purposes of this section, be defined either in relation to a category, type or budgetary size of municipality or in any other manner
 - (b) category of municipal entity
 - (c) category of accounting officer or
 - (d) category of other official.³³¹

No municipality or any of its political structures, political office-bearers or officials, no municipal entity or its board of directors or any of its directors or officials and no other organ of state or person exercising a power or performing a function in terms of the MFMA is liable in respect of any loss or damage resulting from the exercise of that power or the performance of that function in good faith. Without limiting liability in terms of the common law or other legislation, a municipality may recover from a political office-bearer or official of the municipality, and a municipal entity may recover from a director or official of the entity, any loss or damage suffered by it because of the deliberate or negligent unlawful actions of that political office-bearer or official when performing a function of office.³³² Various cases concerning the recovery of damages caused by municipal office bearers or political representatives have

³³¹ Read the MFMA s 175(a)-(b).

³³² Refer to the MFMA s 176(1)-(2).

already been decided. On this point, the new legal system has significantly increased and enhanced the accountability of municipal politicians and officials.³³³

The Minister may by notice in the *Gazette*:

- delay the implementation of a provision of the Act for a transitional period not exceeding five years from the date when this section takes effect or
- where practicalities impede the strict application of a specific provision of the Act, exempt any municipality or municipal entity from, or in respect of, such provision for a period and on conditions determined in the notice. A delay or exemption in terms of subsection (1) may:
 - (a) apply to:
 - (i) municipalities generally; or
 - (ii) municipal entities generally; or
 - (b) be limited in its application to a particular-
 - (i) municipality;
 - (ii) kind of municipality, which may, for the purposes of this section, be defined either in relation to a category, type or budgetary size of municipality or in any other manner;
 - (iii) municipal entity; or
 - (iv) category of municipal entities.³³⁴

To facilitate the restructuring of the electricity industry as authorised by the Cabinet member responsible for such restructuring, the Minister, acting with the concurrence of the Cabinet member responsible for local government and after consultation with organised local government, may, by notice in the *Gazette*, exempt any municipality or municipal entity from any specific provision of the MFMA for a period of not more than four years and on conditions determined in the notice, provided that such ex-

³³³ See, eg, the case of *Moodley v Umzinto North Town Board* 1998 (2) SA 188 (SCA). In this case the town treasurer made certain investments on behalf of the Town Board. A claim for damages was instituted against him for the recovery of R300 000, which was lost as a result of an investment in a company which was subsequently liquidated. In his defence, the treasurer argued that his liability was exempted by virtue of the Local Authorities Ordinance 25 of 1974 (N) s 99, which stated that an official of a council, acting under the direction of the council and in the scope of his authority, could not be held liable for losses incurred. The court found that the treasurer exceeded his authority, however, and thus rendered himself vulnerable. He could not rescue himself by simply stating that he had acted within the course of his employment. See paras G-I at 194.

³³⁴ The MFMA s 177(1)-(2).

emption may not be understood as obligating any municipality to transfer any staff, assets or liabilities.³³⁵

(n) Transitional provisions and the amendment of other legislation

The MFMA specifically determines that anything done in terms of a provision repealed by section 179(1) of the Act, which can be done in terms of a provision of the Act, must be regarded as having been done in terms of the Act. Within three months of the date on which this section takes effect, all municipalities must submit to the National Treasury a list of:

- all corporate entities in which the municipality or a municipal entity under its sole or shared control has an interest, specifying:
 - (a) the name and address of the corporate entity
 - (b) the purpose, extent and other particulars of the interest
 - (c) if such corporate entity is a municipal entity, whether the entity is under the sole or shared control of the municipality and
 - (d) such other information as may be required by the National Treasury
- all public-private partnerships to which the municipality is a party, with a value of more than one million Rands in total or per annum, specifying:
 - (a) the name and physical address of the private party participating in the public-private partnership
 - (b) the purpose and other particulars of the public-private partnership and
 - (c) such other information as may be required by the National Treasury and
- all other types of contract of the municipality for a period beyond 1 January 2007 and with a value of more than one million Rands in total or per annum.³³⁶

According to the new financial system for local government in South Africa and subject to the provisions of the supreme Constitution, parliament is confirmed as the highest legislature as far as public finance in general is concerned. In this regard, parliament will and has already enacted various pieces of legislation which affect the financial affairs of all three spheres of government. Some of these legislative enact-

³³⁵ See the MFMA s 177(3).

³³⁶ See the MFMA s 178(1)-(2). Note that the legislation referred to in the second column of the schedule to the MFMA is hereby amended or repealed to the extent indicated in the third column of the schedule. Despite the repeal of s 10G of the LGTA 209 of 1993 by s 179(1) of this section, the provisions contained in ss (6), (6A) and (7) of s 10G remain in force until the legislation envisaged in the Constitution s 229(2)(b) is enacted. The repeal of the Municipal Accountants Act 21 of 1988 takes effect on a date determined by the Minister by notice in the *Gazette*.

ments were put in place before the new constitutional dispensation commenced, and others have recently been finalised by parliament.³³⁷ Many Acts passed by parliament before the new Constitution took effect still affect the financial affairs of local governments today. In many instances, such Acts still compel municipalities to undertake specific functions, with or without financial assistance.³³⁸

18.3.2 Provincial control over municipal financial matters

Before the former provincial councils were abolished in July 1986, all of them passed various ordinances which, *inter alia*, contained important provisions regarding the financial management and financial affairs of local authorities within their territories.³³⁹ Many of these ordinances have not yet been repealed or replaced and, in accordance with the Constitution, they still remain in force and effect. It is submitted that all legislatures, especially parliament, should take cognisance of the laws that are still in place and should ensure that no duplication or lacunas in the law occur when new laws are promulgated.

18.3.3 Financial control by local authorities

Apart from the control over municipal finance by the two higher spheres of government, each local government has also been afforded significant powers and duties concerning the management and control of its own financial affairs. Arguably the most important local control mechanism is the passing and implementation of municipal by-laws on financial matters. The existence and scope of such by-laws must be passed in each specific case and must be in compliance with the general legal requirements relevant and applicable to the lawful enactment of municipal legislative authority.

18.4 General comments on the principles relating to municipal fiscal management

In view of all the activities and functions of municipalities, it is submitted that municipal fiscal management is a vast and complicated exercise. There are many aspects

³³⁷ Reference should again be made to the Constitution Sch 6 Item 2, which provides that all legislation which was in force when the new Constitution became effective will continue to be in force until amended or if such legislation is inconsistent with the Constitution.

³³⁸ See, eg, the Health Act 63 of 1977, which compels local authorities to perform specific health services. Refer also to the Compensation for Occupational Injuries and Diseases Act 130 of 1993.

³³⁹ See Cloete (1997) 116. The most important ordinances are the Local Authorities Ordinance, 1974 (O 25 of 1974) applicable in the former province of Natal; Local Government Ordinance, 1939 (O 17 of 1939) applicable in the former Transvaal province; Local Government Ordinance, 1962 (O

continued on next page

in relation to financial management that must be fulfilled, and the overall financial system consists of a number of distinct and important activities. Some of such activities are summarised briefly below.

18.4.1 *Municipal budgeting*

One of the most important financial activities of each municipal government is the annual preparation of a municipal budget. Before the commencement of the new local government dispensation, the preparation and handling of all municipal budgets were controlled by various provincial ordinances. Although such ordinances are still applicable in the new dispensation, they are subject to the new constitutional requirements and demands of new order national and provincial legislation. In the past a municipal budget had to be prepared for 12 months for all municipalities, but the budget procedures differed from one province to another because of the different legislative provisions. Every municipality should realise that its municipal budget is regarded as the foremost financial statement of the municipality, as it reflects the financial capacity and state of affairs within the municipality. It was general practice in the past for the municipal executive to prepare and submit a municipal budget. In practice the former town clerk in co-operation with the city treasurer prepared draft sections of the budget and then submitted them to a council-in-committee. Only once such a council-in-committee has considered the draft budget is it formally discussed and approved by the council. Such council meeting was usually open to the public.³⁴⁰ The MFMA now determines and regulates the main aspects of a municipal budget.

18.4.2 *Financial records, auditing and financial management*

It is imperative for all municipalities to keep proper records of all its financial affairs. This was also the position under the former provincial ordinances and is continued under the new local government system. Apart from the financial records, municipalities must also submit their accounts for proper auditing procedures. Previously, auditing had to be undertaken by the Auditor-General or by auditors that were registered in terms of the Public Accountants and Auditors Act.³⁴¹ More specific

8 of 1962) applicable in the Free State and Municipal Ordinance, 1974 (O 29 of 1974), which applied in the Cape Province.

³⁴⁰ See Cloete (1997) 118. The writer mentions that some of the former ordinances specifically prescribed that the budgets had to be open for inspection by the public. According to the Constitution s 215(1) all budgetary processes must promote transparency.

³⁴¹ 80 of 1991.

details regarding the auditing procedures, as well as the duties and responsibilities of auditors of municipal accounts, were contained in the relevant provincial ordinances. Under the new local government system, both parliament and the provincial legislatures are required to enact legislation to deal with municipal financial affairs.³⁴²

18.4.3 *Municipal expenditure*

It is self evident that all municipalities have enormous expenses in order to fulfil their duties and perform their functions. All municipalities therefore use funds from their revenue accounts to purchase materials and equipment and to employ personnel.³⁴³

All former provincial ordinances had specific requirements regarding the expenditure of municipalities in each province, which laws must now be read together with both national and provincial laws dealing with such issues.

18.4.4 *Loan funds, stocks and capital goods*

In order to perform their functions, many municipalities are forced to take up certain loans. Often municipalities do not have sufficient income to pay for extensive developments or infrastructure upgrading. In the past the powers of municipalities to negotiate and raise loans were strictly controlled in terms of the provisions of the relevant provincial ordinances.³⁴⁴ Strict control over loans by municipalities is essential to safeguard the public and future residents of a particular municipal jurisdiction from negative loan-repayment obligations and unpopular service fees increases. Loans can also be negotiated as bank overdrafts or by issuing stocks or debentures. In order to prevent maladministration and ineffective financial control, municipalities are nowadays required to keep and prepare separate budgets for loan funds. This was also the position in the former local government dispensation.³⁴⁵ It is also a common occurrence that many municipalities have extensive pieces of land at their disposal which land can be sold. One must, however, remember that such land is regarded as public property that belongs to the general public or residents of that municipal area and may thus be disposed of only by the municipality under strict control. In general

³⁴² Again one should remember that the Constitution Sch 6 provides for the continuation of 'old order legislation' subject to amendment and consistency with the Constitution.

³⁴³ In general about 30% of revenue is spent on materials and equipment, 35% on salaries and allowances and 25% on interest on loans.

³⁴⁴ See, eg, the Provincial Ordinances read together with other national legislative enactments such as the Health Act 63 of 1984 and the Housing Act 4 of 1966.

³⁴⁵ See, eg, the Transvaal Municipal Consolidated Loans Fund Ordinance, O 9 of 1952.

municipalities have the authority to buy, sell or even expropriate land should such expropriation be essential in rendering a municipal/public service.

18.4.5 Municipal credit control and debt collection

It is of obvious importance, especially for the long-term financial viability of all municipalities, to collect revenues due to them effectively. Such effective collection programmes presupposes that appropriate credit control mechanisms must be established. As a first step, all municipalities must be able to measure the number of services that they must render and bill their consumers accordingly. It is essential that consumers receive regular and accurate bills for the services rendered to them in a format which is easy and clear to understand. Municipalities must also establish mechanisms to enable poor households to apply and qualify for rebates on service charges. Effective measures should be in place, however, to deal with those households or consumers who can afford to pay for services but neglect to do so timeously. It is of fundamental importance that municipalities retain the authority to discontinue certain services to consumers who do not fulfil their responsibilities to their relevant municipalities. Strict credit control measures are thus essential for municipalities to maintain effective and equitable financial management practices. It is this writer's submission that the new legal order adequately addresses such requirements.

Under the new local government legal system, various legislative provisions have been enacted in order to ensure effective credit control and debt collection measures. According to the Local Government: Municipal Systems Act,³⁴⁶ various requirements have been laid down to enhance effective credit control and municipal debt collection. The measures are briefly discussed below.

18.4.5.1 Customer care and management

Municipalities are obligated within their financial and administrative capacities and in relation to the levying of rates and other taxes and the charging of fees for municipal services to establish, provide and ensure specific aspects. These aspects are:³⁴⁷

- (a) establish a sound customer management system that aims to create a positive and reciprocal relationship between persons liable for these payments and the municipality, and where applicable, a service provider;

³⁴⁶ 32 of 2000.

³⁴⁷ See the Systems Act s 95(a)-(i).

- (b) establish mechanisms for users of services and ratepayers to give feedback to the municipality or other service provider regarding the quality of the services and the performance of the service provider;
- (c) take reasonable steps to ensure that users of services are informed of the costs involved in service provision, the reasons for the payment of service fees, and the manner in which monies raised from the service are utilised;
- (d) where the consumption of services has to be measured, take reasonable steps to ensure that the consumption by individual users of services is measured through accurate and verifiable metering systems;
- (e) ensure that persons liable for payments, receive regular and accurate accounts that indicate the basis for calculating the amounts due;
- (f) provide accessible mechanisms for those persons to query or verify accounts and metered consumption, and appeal procedures which allow such persons to receive prompt redress for inaccurate accounts;
- (g) provide accessible mechanisms for dealing with complaints from such persons, together with prompt replies and corrective action by the municipality;
- (h) provide mechanisms to monitor the response time and efficiency in complying with paragraph (g); and
- (i) provide accessible pay points and other mechanisms for settling accounts or for making pre-payments for services.

It is clear from these requirements that the legislator intended that all municipalities create a financial system that is directed at effective and sufficient service provision but which also provides for customer care and public involvement in respect of municipal rates, taxes and service charges.

18.4.5.2 Debt collection and credit control policy

Without a system in place which can ensure effective debt collection, all municipalities will encounter financial restraints in varying degrees. In light of the fact that municipal income is dependent largely on regular and up-to-date payment for services rendered, every municipality must provide and enforce proper debt collection procedures. According to the new legislative framework, all municipalities must collect all money that is due and payable to them. This obligation is subject to the provisions of applicable legislation. Furthermore, all municipalities, for the purpose of debt collection, must adopt, maintain and implement a credit-control and debt-collection policy which is consistent with their rates and tariffs policies and which complies with the

provisions of the Municipal Systems Act.³⁴⁸ There is thus a clear and direct responsibility on municipalities to collect debt and to do so in a clear and informative manner. It is further also provided that the contents of a credit control and debt collection policy must provide for various issues.³⁴⁹ The policy must include at least the following:

- (a) credit control procedures and mechanisms;
- (b) debt collection procedures and mechanisms;
- (c) provision for indigent debtors that is consistent with its rates and tariff policies and any national policy on indigents;
- (d) realistic targets consistent with-
 - (i) general recognised accounting practices and collection ratios; and
 - (ii) the estimates of income set in the budget less an acceptable provision for bad debts;
- (e) interest on arrears, where appropriate;
- (f) extensions of time for payment of accounts;
- (g) termination of services or the restriction of the provision of services when payments are in arrears;
- (h) matters relating to unauthorised consumption of services, theft and damages; and
- (i) any other matters that may be prescribed by regulation in terms of section 104 of the Systems Act.

Apart from the minimum requirements mentioned above, it is important to note that the policy may differentiate between different categories of ratepayer, user of services, debtor, tax, service, service standard and other matter, as long as the differentiation does not amount to unfair discrimination. It seems that the intention is to give municipalities a broad discretion to differentiate between different municipal debtors. In this respect, emphasis should again be placed on the provisions of the Constitution, which in section 9 of the Bill of Rights outlaws unfair discrimination. Where municipalities thus differentiate between municipal debtors, such differentiation must

³⁴⁸ See the Systems Act s 96(a)-(b).

³⁴⁹ Refer to the Systems Act s 97.

be lawful under the Constitution and may not amount to unfair discrimination.³⁵⁰ To ensure the effective application and enforcement of a municipal credit control and debt collection policy, municipalities are obligated to adopt by-laws to give effect to such policies.³⁵¹ Again provision is made that such by-laws may differentiate between categories of municipal debtor, as long as such differentiation does not amount to unfair discrimination. It is submitted that an evaluation of a policy, whether it amounts to unfair discrimination or not, requires an objective assessment of the relevant circumstances of each case.³⁵²

18.4.5.3 Supervisory and implementing authority

According to the new legislative framework, specific provision is made for the supervisory and implementing authority of a municipality's credit control and debt collection policy and by-laws. The Systems Act specifically determines that a municipality's executive committee or executive mayor, or if there is no executive committee or executive mayor, then the municipal council itself or a committee appointed by the council, is designated as the supervisory authority and must oversee and monitor the implementation and enforcement of the municipality's credit control and debt collec-

³⁵⁰ See the Systems Act s 97(2), read together with the Constitution s 9. Many precedents have also been established in dealing with aspects concerning whether or not particular differentiation practices amounted to unconstitutional conduct.

³⁵¹ See the Systems Act s 98(1) and (2).

³⁵² Debt collection has always been a contentious issue and has often been the focus of legal disputes. Various cases concerning issues of municipal debt collection were reported in recent years. In *Cape Town Transitional Metropolitan Substructure v ILCO Homes Ltd* 1996 (3) SA 492 (C) the court was faced with legal proceedings in terms of the Municipal Ordinance 20 of 1974 (C) s 93(1) for the recovery of rates. The section required authorisation by the Administrator or Premier of the province to institute legal proceedings after the expiration of a period of 12 months from the date upon which the rates became due and payable. It was held that such authorisation could be given before or after the expiration date. Authorisation could further be given after the institution of legal proceedings and could thus be ratified. In *Midrand/Rabie Ridge/Ivory Park Metro Substructure v Lanmer (Pty) Ltd* 2001 (2) SA 516 (T) the court was faced with the issue concerning the recovery of interest on outstanding rates. With reference to debt due to a local authority, the Local Government Ordinance 17 of 1939 (T) provided that a local authority could recover interest at a rate not more than the rate determined by the Local Authorities Loans Fund Board in terms of the Local Authorities Loans Fund Act 67 of 1984 s 11(2)(b). The board determined such maximum interest to be equal to the prime rate charged by the commercial banking industry at the time. The court concluded that such a determination of the interest rate was not vague and required only an investigation into the prime rate applicable at the time. See also *Eastern Metropolitan Substructure v Peter Klein Investments* 2001 (4) SA 661 (W). The case concerned the Local Government Ordinance 17 of 1939 (T) s 49, which permitted the recovery of moneys due for sanitary services from both the owner and occupier jointly and severally of the applicable premises. Refer also to *De Beer NO v North-Central Local Council ETC* 2002 (1) SA 429 (CC). The case concerned the Durban Extended Powers Consolidated Ordinance 18 of 1976 (N) s 105. According to the ordinance, a municipal council had to send out three notices to a delinquent ratepayer before it could institute court proceedings against him/her. The court confirmed *inter alia* that municipal money had to be raised as

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tion policy and related by-laws. The designated supervisory authority is also obligated to oversee and monitor the performance of the municipal manager in implementing the policy and applicable by-laws.³⁵³ The supervisory authority must also, when necessary, evaluate or review the policy and by-laws or the implementation thereof in order to improve the efficiency of its credit-control and debt-collection mechanisms, processes and procedures. Regular reports to the municipal council in respect of the policy are also required.³⁵⁴ In contrast with the supervisory authority, it is required that the municipal manager or particular service provider, if applicable, must implement and enforce the municipality's credit-control and debt-collection policy and by-laws; must establish effective administrative mechanisms, processes and procedures to collect money that is due and payable to the municipality and must also report to the supervisory authority at such intervals as may be determined by the municipal council.³⁵⁵

18.4.5.4 Additional powers of municipalities in respect of their credit control and debt collection procedures

The Systems Act states that at all reasonable hours the occupier of a premises in a municipality must give an authorised representative of that municipality or of a service provider access to the premises in order to read, inspect, install or repair any meter or service connection for the reticulation of a service or to disconnect, stop or restrict the provision of any service.³⁵⁶ Municipalities are furthermore allowed to consolidate any separate accounts of persons liable for payments to the municipality, to credit a payment by a person against any account of that person and to implement any of the debt-collection and credit-control measures in relation to any arrears on any of the accounts of such a person.³⁵⁷ If a person that is liable to the municipality for the payment of rates, taxes or fees consents to it, a municipality may enter into an agreement with that person's employer to deduct from his or her salary or wages:

- any outstanding amounts due to the municipality or

speedily as possible because it was used by the council to fulfil its constitutional obligations in relation to the delivery of services.

³⁵³ See the Systems Act s 99(a)(i)-(ii).

³⁵⁴ Refer to the Systems Act s 99(b)-(c).

³⁵⁵ See the Systems Act s 100(a)-(c).

³⁵⁶ See the Systems Act s 101.

³⁵⁷ See the Systems Act s 102(1)(a)-(c). It should be noted that the provisions of the subsection do not apply to cases where there is a dispute between the municipality and the debtor concerning any specific amount claimed by the municipality from that person. S 102(2).

- such monthly amounts/instalments as may be agreed between the parties.

The effect of such an agreement can be regarded as a so-called “emolument attachment order”.³⁵⁸ Municipalities may also provide for special incentives for employers to enter into such agreements and for employees to consent to such agreement.³⁵⁹ It is submitted that such incentives could contribute significantly to the collecting of bad debt, which so many municipalities are facing in South Africa. The aim of such incentives is to collect *some* bad debt rather than nothing at all.

18.4.5.5 Regulations and guidelines in respect of credit control and debt collection provisions

In respect of credit control and debt collection measures, the minister responsible for local government may make regulations or issue guidelines to provide for or to regulate various matters. The matters are the following:³⁶⁰

- (a) the particulars that must be contained in the municipal manager’s report in terms of section 100(c);
- (b) the identification of municipal services provided by the municipality or other service providers to users of services where the use of the service by the user can reasonably be determined, measured or estimated per quantity used or per frequency of such use;
- (c) the determination, measurement or estimate of the use by each user of each service so identified;
- (d) user agreements, and deposits and bank guarantees for the provision of municipal services;
- (e) the rendering of accounts to ratepayers and users and the particulars to be contained in the accounts;
- (f) the action that may be taken by municipalities and service providers to secure payment of accounts that are in arrear, including –
 - (i) the termination of municipal services or the restriction of the provision of services;
 - (ii) the seizure of property;
 - (iii) the attachment of rent payable on a property; and

³⁵⁸ See the Systems Act s 103(a)(i)-(iii).

³⁵⁹ Refer to the Systems Act s 103(b)(i)-(iii).

³⁶⁰ Read the Systems Act s 104(1)(a)-(n).

- (iv) the extension of liability to a director, a trustee or a member if the debtor is a company, a trust or a close corporation;
- (g) appeals against the accuracy of accounts for municipal taxes or services;
- (h) the manner in and time within which such appeals must be lodged and determined and the consequences of successful and unsuccessful appeals;
- (i) extensions for the payment of arrears and interest payable in respect of such arrears;
- (j) service connections and disconnections, and the resumption of discontinued services;
- (k) the combating of unauthorised consumption, connection and reconnection and theft of municipal services;
- (l) the development and implementation of an indigent policy;
- (m) the tampering with or theft of meters, service supply equipment and reticulation network and any other fraudulent activity in connection with the provision of municipal services; and
- (n) any other matter that may facilitate –
 - (i) effective and efficient systems of credit control and debt collection by municipalities; or
 - (ii) the application of this chapter.

When the minister makes regulations or issues guidelines, he or she must take into account the capacity of municipalities to comply with such regulations or guidelines and must differentiate between different kinds of municipality according to their respective capacities.³⁶¹

18.5 Important revenue sources of local governments

The success of the new local government system is dependent largely on the availability of resources and, more so, financial resources. Without appropriate financial capacity, most municipalities will not be able to provide or sustain essential services to their respective communities. Municipal revenue sources are therefore just as important as proper financial management and control. Within the new local government system, municipalities have been afforded various ways of ensuring and enhancing local revenue sources. On the issue of municipal revenue sources, it is

³⁶¹ See the Systems Act s 104(2)(a)-(b).

important to distinguish between so-called *own revenue sources* and *outside sources*. Own sources refer to sources of income that a municipality can or must create for itself. Outside sources again refer to revenue that is not directly generated by the municipality itself but falls under examples such as grants from provincial or national governments to local governments.

One of a municipality's most important revenue sources is the *power of taxation*. The power to tax is regarded as an essential prerequisite to ensuring a system of sustainable and accountable local government. According to the White Paper on local government, there are four areas of local decision-making that are important to municipal taxation. These areas are:

- the choice of tax to be imposed
- the definition of the tax base
- the choice of the tax rate and
- the administration of the tax system.³⁶²

It is also important for municipalities to have freedom and be able to vary their tax rates. Such a situation will not only strengthen local accountability but will also enable communities to challenge municipalities about the value-for-money of the services that they provide. Any *local tax policy* should be seen within the framework of the total tax system of a country, however, and not in isolation. There is a strong need for a coherent and transparent tax system in general. A particular taxation policy should always take into account any adverse or negative consequences which such a system could have on the productiveness of the economy of the region and/or country as a whole. It was thus envisaged that the new legal dispensation with regard to local government matters would specifically incorporate such important aspects within national legislation. Such a national legislative framework would then ensure uniform standards and practices between the various different types of municipality across the country.

18.5.1 Property taxation

Arguably the most important source of local taxation is so-called "property tax" (rates). This type of taxation requires owners of property located within a municipal area to pay a tax to the municipality based on a valuation of their property. The term

³⁶² See the White Paper on Local Government (1998) at 133.

property tax is generally used to refer to all taxes relating to immovable property (land).³⁶³ The main reasons property tax is regarded as a very suitable local tax are:

- it is easy to collect
- it produces a predictable and stable income
- it is fixed in location and
- it is impossible to conceal.³⁶⁴

Property tax is directed mainly at financing municipal service provision, and it is therefore an important source of so-called “discretionary own-revenue” for local governments that enables municipalities to function effectively.

Historically, property rating in South Africa has been done differently in the various provinces. Each of the former four provinces had its own legislation in this regard. Such provincial legislative requirements were never properly co-ordinated, although the legal requirements were very similar in each province. For various reasons the old property rates/tax system was inadequate and ineffective. Such is the importance of municipal property taxation that the Constitution specifically addresses it. According to section 229(2) of the Constitution, all municipalities have the power to impose rates on property. Such a system may be regulated by national legislation, however.³⁶⁵ Since property taxation was conducted under the former provincial ordinances regulating such property rating and taxation, such enactments stay in force until such time as they are replaced by national legislation. From the outset of the restructuring of the entire local government dispensation, it was envisaged that the old system relevant to municipal property taxation also had to be overhauled.

According to the White Paper on Local Government, national government had to address four main issues with regard to property taxes. These issues can be summarised as follows:

- *To bring untaxed areas into the tax net* Many former black areas are outside the property tax net and effective measures to integrate them must be implemented.

³⁶³ From an international perspective, property tax is regarded as the single most important tax at local government level, especially in developing countries. The more developed a country becomes, the less dependent it becomes on property taxes as a source of local revenue.

³⁶⁴ See Franzen RCD “Property tax: Alive and well and Levied in SA” (1996) 8 *SA Merc LJ* at 351.

³⁶⁵ See the Constitution s 229(2)(b).

- *To establish a uniform property valuation and tax system* An optimal valuation system should be established. The White Paper has identified various possible rating systems.³⁶⁶
- *To determine valuation periods* Properties should be valued regularly.
- *To determine relief or partial exemption for the poorest people who genuinely cannot afford such taxes* Any rebates or grants-in-aid should be clearly indicated in the budget of a municipality.

It has also been argued that local governments should have some latitude in decisions apart from those mentioned above with regard to aspects of property taxes in their area, in order to reflect their own unique circumstances and local economic objectives.

18.5.2 The valuation of property

It was mentioned above that the new constitutional scheme entrenches the fact that municipalities are allowed to impose rates on property. Property rates can be levied only on the basis of some or other form of property valuation, however. Although the Constitution is silent on the issue of property valuations, such aspects are normally set out in national legislation.³⁶⁷ It is also obvious that apart from the requirements set out in national legislation, any valuation of property must be done within the parameters of South Africa's supreme constitution. Any valuation or recovery of rates on property contrary to the provisions of the Constitution are invalid.³⁶⁸ In the past valuation had to be done by qualified and registered valuers.³⁶⁹

³⁶⁶ See the White Paper on Local Government (1998) at 135. The systems include *site rating*, or the valuation of land only, the *combined rating* of land and buildings, and *differential or composite rating*, where both land and buildings are rated together but at different rate levels, and where the rate levied on land is higher than that on improvements. A rating system where a uniform rate is used for areas which were not previously rated, irrespective of the value of the property. (This is often called 'flat-rating' in South Africa). The rate is usually lower than the actual value of the property.

³⁶⁷ The LGTA s 10G(6), eg, required local councils, metro councils and rural councils to ensure that properties within their areas of jurisdiction had to be valued at intervals prescribed by law and that a single valuation roll had to be compiled and had to be open for public inspection.

³⁶⁸ See, eg, the case of *Lotus River Etc Residents Association v South Peninsula Municipality* 1999 (2) SA 817 (C). The court held that increases in rates under the LGTA s 10G(6) and Property Valuation Ordinance 29 of 1944 (C) may not be in limitation of constitutional rights such as the right to equality unless such limitation is permitted under the limitation clause s 36. However, the court mentioned that its role is not to second-guess the legislature but to assess the lawfulness of any limitation. The court was also aware that municipalities inherited several valuation rolls with differing base dates as a result of the restructuring of local government. The court concluded that the uniform rates increase was carefully considered and was adopted only as an interim measure, thereby justifying the limitation.

³⁶⁹ See, eg, the Valuers Act 23 of 1982.

18.5.3 The basis of property valuations

There are many important aspects that influence the actual basis upon which property valuations are determined. From the outset it is important to distinguish between valuations on land and valuations on buildings. In all the former provincial ordinances the intention was that the value of land should be the amount which the land would have realised had a willing buyer and seller agreed on a free and voluntary sale. This seems to refer to market value. The value of buildings, on the other hand, was determined as the cost of erection at the time of valuation less depreciation. Another option was to value the land/property inclusive of all the improvements and then to subtract one value from the other.³⁷⁰ In the past, when reference was made to valuation in legislation it usually referred to immovable property (land) and improvements on the land. It was thus often important to determine whether an object on land was fixed to the land permanently or not.³⁷¹ Generally speaking the determination of land values is usually done by reference to sale prices of similar land in a particular area, while the estimation of building replacement or erection/building costs can be calculated according to a standard rate per square meter.

Prior to the new local government dispensation, it was a general rule that valuations had to be done every four to five years. If the time gap was too large, then the valuations would no longer relate to the market value, and distortions would appear in the tax base. Furthermore, all former provincial ordinances have prescribed a basic format for a valuation roll in each municipal area. There were also specific requirements regarding valuations courts or boards and the procedures for making a valuation roll.³⁷²

18.5.4 The levying of municipal property rates

Today it is a constitutional fact that municipalities have the right to levy property rates.³⁷³ Prior to the new legal system, all former provincial ordinances provided for

³⁷⁰ See Craythorne (1997) 351.

³⁷¹ See, eg, the case of *Standard-Vacuum Refinery of SA (Pty) Ltd v Durban City Council* 1961 (2) SA 669 (A).

³⁷² See Craythorne (1997) 352-354. See also the cases of *Crawford and Others v Borough of Eshove and Another* 1956 (1) SA 147 (N) and *Helderberg Butcheries v Municipal Valuation Court, Somerset West* 1977 (4) SA 99 (C).

³⁷³ See the Constitution s 229. See also *Msunduzi Municipality v MEC for Housing, KZN* 2004 (6) SA 1 (SCA).

the levying of property rates.³⁷⁴ The levying of property rates was also allowed under the LGTA.³⁷⁵

Under the legal system prior to the new constitutional dispensation, various methods of rating existed. Three broad rating methods were generally known. The first method was the so-called “site rating” method. According to this method a rate was levied only on the rateable valuation of the particular land. This method encouraged the development of vacant land or the continuous development of occupied land to its fullest potential. To a great extent speculation in land was minimised, although the method produced less income than others. A second method used was the so-called “flat rating” method. Such a method requires that both land and buildings be rated together. It was a very productive method, as it brought in more revenue. This particular method required more detailed administration, however, and it often discouraged the improvement of property. The third method of rating was known as the “differential” (composite) rating method. This method entailed rating both land and buildings, but at different rates: land was levied at a higher rate than improvements on the land.³⁷⁶ Within a particular rating system, all the prior provincial ordinances

³⁷⁴ Various rates such as general rates, town rates, health rates, water rates, sewerage rates, special rates, sanitary rates and local rates were applicable. See Craythorne (1997) 354-355. See also the cases of *Weenen TLC v Van Dyk* 2000 (3) SA 435 (N), which required that rates and taxes had to be properly promulgated before their introduction. In *Midrand/Rabie Ridge/Ivory Park Metropolitan Substructure v Strydom and Others* 2001 (1) SA 98 (SCA) the case concerned the levying of a rate on property only once a year in terms of the Ordinance on Property Tax 11 of 1977 (T). The court held that under the ordinance a general property tax on property based on the site value was authorised only once a year and the taxpayer was entitled to be informed in advance of such taxes. It should be noted that if the required legal procedure to impose rates or taxes was not followed, then such rates are not eligible. Read *Weenen TLC v Van Dyk* 2002 (4) SA 653 (SCA).

³⁷⁵ According to the Act s 10G(7)(b) a municipality could even differentiate between different categories of property on such grounds as it deemed reasonable. It is important to note, however, that any differentiation could not amount to unfair discrimination. This would be contrary to the Constitution and thus invalid. For more on this position see *PE Municipality v Prut NO* 1996 (3) SA 533 (SE) and also *Beukes v Krugersdorp Transitional Local Council and Another* 1996 (3) SA 467 (W). The interim Constitution s 178(2) required that municipal rates and taxes had to be levied according to a uniform structure. See also *Fedsure Life Assurance v Greater Johannesburg TMC* 1999 (1) SA 374 (CC). Note the case of *Robertson v City of Cape Town/Truman-Baker v City of Cape Town* 2004 (5) SA 412 (CPD). The applicants in the case were dissatisfied with the increase of rates levied on their properties, which were levied on the basis of property valuations contained in a provisional valuation roll. The municipality relied on both the Property Valuation Ordinance 1993 (C) and ss 93(7)-(10) of the Structures Act as amended. The court held *inter alia* that the municipality did not fall within the definition of local authority in s 1 of the Ordinance and could therefore not exercise a power to levy rates on the basis of a provisional valuation roll. The court also held that the amendments to the Structures Act violated ss 154(2) and 229(5) of the Constitution and were unconstitutional and invalid. Refer to para 154 at 459-460.

³⁷⁶ See Craythorne (1997) 355-356. The writer points out that the site-rating method seems to be the least popular in South Africa and that the flat rating method is used mostly in western countries.

provided for the exemption of certain property from the payment of rates. Exemptions commonly included land that was used for agricultural purposes, education (schools) and religious practices (church buildings).³⁷⁷

Under the LGTA,³⁷⁸ councils were authorised to levy and recover property rates in respect of immovable property within their respective jurisdictions. Specific legal requirements were laid down which had to be followed. The LGTA was only a transitional piece of legislation and would be substituted by a uniform national Act once the restructuring process came to a close. This national Act was finally enacted in 2004, and parts of the Act commenced at such time. The new legal system regulating municipal property taxation is significantly different from the old systems that were applicable under the former four provincial ordinances.

18.5.5 Some important aspects concerning municipal property assessment and taxation

The adoption and finalisation of new legislative provisions regarding the levying and recovery of property taxes in South Africa was preceded by a strong public outcry about new proposals and suggestions. Many people have called new property taxation proposals a “hidden wealth tax” aimed at over-taxing the already heavily taxed average taxpayer.³⁷⁹ Other commentators have expressed the view that without a complete overhaul of the property taxation system in South Africa, local governments will not be able to fulfil their constitutional mandates, however.³⁸⁰ Therefore, the aim of a new system for property taxation is to do away with the previously ambiguous situation of having various property rating systems in the country and to replace them with a uniform system applicable equally throughout the territory of the state.³⁸¹

18.5.5.1 A brief history of property taxation in South Africa

It is reported that the first land-related tax was introduced into South Africa in 1677. The Cape Ordinance of 1836 introduced the first formal property tax in the Cape

³⁷⁷ See, eg, *Mosowitz v Johannesburg City Council* 1957 (4) SA 569 (T); *PE Municipality v Marist Brothers* 1948 (1) SA 637 (E); *De Aar Divisional Council v Convent of the Holy Cross* 1952 (1) SA 495 (C) and *St John's Diocese v Umtata Municipality* 1968 (3) SA 55 (E).

³⁷⁸ S 10G(7).

³⁷⁹ Refer to Ratiba MM “The Good, the bad or the ugly? Comments on the property rates bill” (2000) *DR* October at 27-29.

³⁸⁰ See Franzsen RCD “Property tax: Alive and well and levied in South Africa” (1996) 8 *SA Merc LJ* at 348 *et seq.*

³⁸¹ The dual local government system of pre 1994 has created various fiscal disparities between municipalities. White local authorities were financially strong because of fiscal autonomy, which in-

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Province, however, and by the end of the 19th century, such a system of taxation, based on capital values, was in place throughout the territories.³⁸² Property tax was levied on the owner of land, irrespective of whether such land was zoned for residential, commercial or industrial purposes, and the tax could be levied on either the value of the land (site rating), the value of the land and improvements (composite rating) or on a uniform or flat rating system. Land was valued at market value, and all provincial valuation rolls had to include minimum information such as identification of the owner of land, the size and description of land as well as the value of the land together with improvements. It was also possible for land owners to appeal decisions of property valuation to a specific tribunal. Finally, the old system also provided for effective measures to recover outstanding levies. Properties could be sold via public auction, and the Registrar of Deeds was prohibited from transferring property from one owner to another unless a clearance certificate had been obtained from the relevant local authority and submitted to the Registrar.³⁸³ It will become clear that many of the old provisions have been incorporated into the new property rates legislative framework.

18.5.5.2 Reasons for changing the old property rates systems

There are various reasons for the former legal system of levying and collecting property rates and taxes' having to be overhauled. The following examples are a brief summary of such reasons:

- The entire social and legal framework of local government *per se* has changed. Property taxation now operates within a new supreme constitutional framework. Apart from the structural requirements of the Constitution, the Bill of Rights also determines various substantive compliance.³⁸⁴ In light of the new constitutional requirements, all local government structures were amalgamated which, in turn, required amendments to the former provincial tax legislation.

cluded trading account surpluses on water and electricity and property taxes. Black local authorities did not have such income sources and thus had poor financial capabilities.

³⁸² See Franzsen *supra* fn 380 at 352-353.

³⁸³ The clearance certificate had to verify that all rates and taxes on the property in question was paid in full. This provision provided a significant safeguard for local authorities that property taxes would not be lost when a property was sold.

³⁸⁴ See, eg, the Bill of Rights s 9. Different tax regimes often militate against individual rights and values. Tax payers must be treated equally. Equality does not imply exactly the same tax liability, however, but rather equal tax for equal value. A proper division of the tax burden among tax or ratepayers is required. Vertically taxpayers must be treated in a similar way to other taxpayers simi-

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- According to the newly established municipal structures, the tax base of many municipalities was extended to areas outside of the boundaries of urban municipalities. Such areas include farmland, state-owned land and also tribal land, on which rates had never before been levied. Provision had to be made to incorporate such areas within the taxation legislation.³⁸⁵
- The former system of property taxation was fragmented and ineffective. No uniform system was in place, as property rates and taxes were levied and collected in terms of four different provincial ordinances. Such different rating systems caused financial differences between municipalities which, in turn, created a stumbling block for the implementation of a constitutionally sanctioned fiscal system.
- The two-tier model of local government outside metropolitan areas requires a division of fiscal powers between local municipalities and district municipalities.
- The taxation of so-called “public infrastructure” had to be addressed in new legislation. Previously, public infrastructure such as railways and power stations was exempted from paying property taxes. Such income sources had to be brought into the tax system.³⁸⁶
- It was also time to re-evaluate aspects such as the exclusion of certain properties from rates and taxes and the former system of rate-capping for certain property owners, since rates and taxes are an extremely important source of municipal revenue and such exclusion and capping could have significant financial implications for an municipality.³⁸⁷
- Different rates for different properties had to be reconsidered. The categories of property and the rates applicable to such properties was in need of re-evaluation. On this point it is reported that there seems to be a trend internationally to levy business property more highly than residential property.³⁸⁸ Uncontrolled differen-

larly situated. See Franzsen *supra* fn 380 at 355. Refer also to Franzsen RCD “The present status of property tax in SA” (1999) 4 *Journal of Property Tax Assessment and Administration* at 3-13.

³⁸⁵ For more on such aspects see Franzsen RCD “Some questions about the introduction of a land tax in rural areas” (1999) 11 *SA Merc LJ* at 259 *et seq.*

³⁸⁶ It is reported that international practices show that public entities should be rated on at least their operational land. See Franzsen RCD and McCluskey WJ “Some policy issues regarding the Local Government: Property Rates Bill” (2000) 12 *SA Merc LJ* at 213.

³⁸⁷ Rate-capping refers to a maximum limit that is set on the amount of a particular rate. Rate-capping has been implemented mainly to protect ratepayers against unreasonable rates and taxes.

³⁸⁸ Refer to McCluskey WJ (ed) “Property tax: An international comparative review” (1999) at 305-307.

tiation between rates for different properties can lead to taxation competition between municipalities, however. Special care should be taken in such instances since the Constitution prohibits the exercise of a rating power that materially and unreasonably prejudices national economic policies and activities.³⁸⁹ Most businesses are not as concerned about higher rates or taxes, however, since they usually pass such costs on to their consumers or employees.³⁹⁰

- Exemptions from property taxes or the possible deduction from income tax of property taxes had to be re-evaluated. Property tax was traditionally allowed as a deduction from income tax when the tax was incurred for the purposes of trade or the production of income. This position has shifted the property tax burden to the national sphere of government. Since property taxes are also extended to rural areas, including commercial farming properties, the South African Revenue Service will have to calculate carefully the taxes that will be lost if property taxes are still income tax deductible.³⁹¹

In light of *inter alia* the abovementioned factors, it became necessary to amend and re-evaluate the system of property taxation in South Africa. It should also be pointed out that the enforcement of property tax also influences and interacts with the land use policies of a state. The sustainability of property taxes depends strongly on stable property values. Such values in turn depend on multiple market factors such as the state of the economy, political policies and programmes and investment initiatives.³⁹²

Furthermore, property rates are also influenced by the maintenance of up-to-date valuation rolls, regular assessment, billing and rates collection, accountability and transparency and a consumer acceptance of value for money. In South Africa in particular, the issue/culture of payment for services has often been somewhat contentious. Payment was used pre 1994 to force political change, but post 1994 such payment is required to ensure municipal development and the sustainability of ser

³⁸⁹ See the Constitution s 229(2).

³⁹⁰ See Franzsen and McCluskey *supra* fn 386 at 215.

³⁹¹ The question of whether property tax should be income-tax deductible or not is a policy consideration for the national government and does not directly need incorporation in the property rates legislation. Deductions will be provided in the Income Tax laws.

³⁹² It is generally accepted that factors such as land invasions, land reform and settlement programmes, as well as land claims could significantly influence property values and therefore also property rates and taxes. See Franzsen *supra* fn 385 at 358.

vices. There is a general need to build tax morality in local communities which is aimed at ensuring payment for services rendered.³⁹³ Tax morality will be improved only if taxes are fair and acceptable. Before the amalgamation of local authorities under the new legal system, property taxes were regarded as fair and not too burdensome.³⁹⁴

It is thus very important that property rates and taxes be carefully researched and evaluated holistically within the broader tax system. The importance of public participation and educational programmes regarding property taxation in general can therefore not be overemphasised.

18.5.6 Introduction to the new Municipal Property Rates Act

The Municipal Property Rates Act (MPRA)³⁹⁵ was assented to by the president on the 11th of May 2004. The main aims of the Act are:

- to regulate the power of a municipality to impose rates on property
- to exclude certain properties from rating in the national interest
- to make provision for municipalities to implement a transparent and fair system of exemptions, reductions and rebates through municipal rating policies
- to make provision for fair and equitable valuation methods of property
- to make provision for objections and appeals processes and
- to amend certain legislation and to provide for matters connected with the Act.³⁹⁶

According to the preamble of the Act, it is confirmed that the Constitution entitles municipalities to impose rates on property in their areas, subject to regulation in terms of national legislation. Furthermore, municipalities must be developmentally

³⁹³ During 1995, national government launched the so-called Operation Masakhane campaign, with the specific aim of enhancing a culture of payment for services. Despite some success, non-payment is still very high. Three main reasons for non-payment have been identified: in the first place many residents are so poor that they do not have the ability to pay for services; secondly, many areas lack proper infrastructure and service delivery is not up to standard and, thirdly, some local residents have unrealistically high and immediate expectations regarding service delivery.

³⁹⁴ See Franzsen *supra* fn 382 at 352-361. The writer mentions the following reasons for property taxes' being accepted under the former property taxation dispensation: (a) relatively low rates and substantial rebates for residential property owners; (b) relatively low rates and income tax deductibility for commercial property owners; (c) conservative assessed values (generally below fair market value) and well-structured objection and appeal procedures; (d) payment by way of monthly instalments, often in combination with the rest of the municipal bill (electricity and water), which rendered property tax relatively invisible; (e) a general preoccupation with high-profile taxes such as income and value-added tax; and (f) property tax fared well as a perceived benefit tax – services of a high standard were received in return for taxes paid.

³⁹⁵ 6 of 2004, hereafter referred to as MPRA.

³⁹⁶ Refer to the long title of the Act.

orientated, and must address service delivery priorities and promote economic and financial municipal viability. Local government needs a sufficient and buoyant source of revenue, and property rates have been identified as a critical source of revenue for municipalities to achieve their constitutional objectives. In light of the fact that the Constitution confers on parliament the power to regulate the exercise by municipalities of their fiscal powers and in order to ensure uniformity and simplicity in property rates collection, the Act has been enacted.³⁹⁷ The Act has been divided into nine chapters and will be discussed briefly below.

18.5.6.1 Issues concerning the rating of property

According to the Act, only a metropolitan or local municipality may levy a rate on property in its area. In general, a district municipality may levy a rate on property only if it is in a district management area.³⁹⁸ The power of a municipality to levy a rate on property is subject to three main prerequisites. Such power must be exercised subject to:

- section 229 of the Constitution and other constitutional provisions
- to the MPRA itself and
- to the rates policy which each municipality must adopt when levying property rates.³⁹⁹

18.5.6.2 A municipal rates policy

The council of a municipality must adopt a rates policy consistent with the MPRA with regard to the levying of rates on rateable property in the municipality.⁴⁰⁰ Such a rates policy will take effect on the effective date of the first valuation roll prepared by the municipality in terms of the Act and must accompany the municipality's budget for the financial year concerned, when the budget is tabled in the municipal coun-

³⁹⁷ See the preamble of the Act.

³⁹⁸ See the Act s 2(10) and (2)(a). It should be clear from this wording that all property in SA is subject to a possible property tax unless specifically exempted. One must remember that the whole territory of SA has been demarcated under one form or another of local government. The reference to the area of a municipality also includes a district management area. Refer to the Act s 2(b).

³⁹⁹ See the Act s (3)(a)-(c). Note that according to the MPRA (a) as a corporate entity, "municipality" means a municipality described in the Municipal Systems Act s 2 and (b) as a geographical area "municipality" means a municipal area demarcated in terms of the Local Government: Municipal Demarcation Act 27 of 1998. See s 1 definitions.

⁴⁰⁰ Rateable property means property on which a municipality may in terms of s 2 levy a rate, excluding property fully excluded from the levying of rates in terms of the MPRA s 17. Refer to s 1 definitions.

cil.⁴⁰¹ The MPRA further requires that every rates policy must incorporate the following:⁴⁰²

- Treat persons liable for rates equitably.
- Determine the criteria to be applied by the municipality if it levies different rates for different categories of property, if it exempts specific owners from payment of rates, if it grants specific owners of properties a rebate or a reduction in the payable rate or if it increases rates.⁴⁰³
- Determine or provide criteria for the determination of categories of property for the purpose of levying different rates and categories of owner of properties or categories of properties for the purpose of granting exemptions, rebates and reductions.
- Determine how the municipality's powers in terms of section 9(1) of the MPRA must be exercised in relation to properties used for multiple purposes.
- Identify and quantify in terms of costs to the municipality and any benefit to the local community any exemptions, rebates and reductions, any exclusions referred to in section 17(1)(a), (e), (g), (h) and (i) of the Act and also rates on properties that must be phased in in terms of section 21.⁴⁰⁴
- Take into account the effect of rates on the poor and include appropriate measures to alleviate the rates burden on them.
- Take into account the effect of rates on organisations conducting specified public benefit activities and registered in terms of the Income Tax Act⁴⁰⁵ for tax reductions and which own property in the area.
- Take into account the effect of rates on public service infrastructure.⁴⁰⁶

⁴⁰¹ See the Act s (2), read with the Municipal Finance Management Act 56 of 2003 s 16(2), which regulates *inter alia* aspects concerning municipal budgets.

⁴⁰² Refer to the Act s (3)(a)-(j).

⁴⁰³ A "rebate" refers to a discount granted in terms of s 15 on the amount of the rate payable on the property. A "reduction" means the lowering in terms of s 15 of the amount for which the property was valued and the rating of the property at that lower amount. See the MPRA s 1 definitions.

⁴⁰⁴ "Local community", in relation to a municipality (a) means that body of persons comprising (i) the residents of the municipality, (ii) the ratepayers of the municipality, (iii) any civic organisations and non-governmental, private sector or labour organisations or bodies which are involved in local affairs within the municipality and (iv) visitors and other people residing outside the municipality who, because of their presence in the municipality, make use of services or facilities provided by the municipality and (b) includes, more specifically, the poor and other disadvantaged sections of such body of persons. See the MPRA s 1.

⁴⁰⁵ 58 of 1962.

⁴⁰⁶ Public service infrastructure means publicly controlled infrastructure of the following kinds: (a) national, provincial or other public roads on which goods, services or labour move across a municipal boundary; (b) water or sewer pipes, ducts or other conduits, dams, water supply reservoirs, water treatment plants or water pumps forming part of a water or sewer scheme serving the public; (c)

continued on next page

- Allow the municipality to promote local, social and economic development.
- Identify all rateable properties in the municipal area that are not rated in terms of section 7(2)(a) of the Act.

The MPRA specifically requires that when a municipality is considering the criteria to be applied in respect of any exemptions, rebates and reductions on property used for agricultural purposes, a municipality must take account of the following:⁴⁰⁷

- (a) the extent of services provided by the municipality for such properties;
- (b) the contribution of agriculture to the local economy;
- (c) the extent to which agriculture assists in meeting the service delivery and development obligations of the municipality; and
- (d) the contribution of agriculture to the social and economic welfare of farm workers.

It is further provided that any exemptions, rebates or reductions provided for in the rates policy must comply with and be implemented in accordance with a national framework that may be prescribed after consultation with Organised Local Government (OLG). No municipality may grant relief in respect of payment of a rate to a category of owners of properties or to the owners of a category of properties, other than by way of an exemption, rebate or reduction provided for in the rates policy and granted in terms of section 15 of the Act. No relief may be granted to owners of properties on an individual basis.⁴⁰⁸

Before it adopts its rates policy, a municipality must also follow a process of community participation.⁴⁰⁹ The municipality must also ensure that the municipal manager, who is obligated to do so, has conspicuously displayed the draft rates policy for

power stations, power substations or power lines forming part of an electricity scheme serving the public; (d) gas or liquid fuel plants or refineries or pipelines for gas or liquid fuels, forming part of a scheme for transporting such fuels; (e) railway lines forming part of a national railway system; (f) communication towers, masts, exchanges or lines forming part of a communications system serving the public; (g) runways or aprons at national or provincial airports; (h) breakwaters, sea walls, channels, basins, quay walls, jetties, roads, railway or infrastructure used for the provision of water, lights, power, sewerage or similar services of ports, or navigational aids comprising lighthouses, radio navigational aids, buoys, beacons or any other device or system used to assist the safe and efficient navigation of vessels; (i) any other publicly controlled infrastructure as may be prescribed; or (j) rights of way, easements or servitudes in connection with infrastructure mentioned in para (a)-(i). See the MPRA s 1 definitions.

⁴⁰⁷ S 3(4)(a)-(d). Note that agricultural purpose, in relation to the use of a property, excludes the use of a property for the purpose of eco-tourism or for the trading in or hunting of game. S 1 definitions.

⁴⁰⁸ See ss 3(5) and (6)(a)-(b).

⁴⁰⁹ Such a process is set out in the Local Government: Municipal Systems Act ch 4.

a period of at least 30 days at the municipality's head an satellite offices and libraries and, if the municipality has an official website, on that website.⁴¹⁰ The municipal manager must also advertise in the media a notice stating that a draft rates policy has been prepared for submission to the council, that the draft rates policy is available for public inspection during office hours and that the local community is invited to submit comments and representation to the municipality within a period specified in the notice.⁴¹¹ A municipal council must take into account all comments and representations made or received when it considers the draft rates policy. A rates policy must be reviewed annually by a municipal council and must be amended if necessary. Any amendments to such a policy must be annexed to the municipality's annual budget when tabled. The requirements of section 3(3)-(6) of the MPRA also apply to any amendment of a rates policy. It should be noted, however, that community participation in amendments to a rates policy is not facilitated under section 4 of the Act, but must be effected through the municipality's annual budget process in terms of sections 22 and 23 of the Municipal Finance Management Act.⁴¹²

Finally, all applicable municipalities must adopt by-laws to give effect to the implementation of their rates policies. Such a by-law may differentiate between different categories of property and also between different categories of property owner liable for the payment of rates.⁴¹³

18.5.6.3 Aspects concerning the levying of rates

In general, when rates are levied, a municipality must levy rates on all rateable property in its area. However, a municipality is not obliged to levy rates on

- property which the municipality owns
- public service infrastructure owned by the municipality
- properties defined as a right registered against immovable property in the name of a person, excluding a mortgage bond registered against the property and properties in respect of which it is impossible or unreasonably difficult to establish a mar-

⁴¹⁰ Refer in this instance also to the Systems Act s 21B.

⁴¹¹ The notice period may not be less than 30 days, however. See the Act s 4(2)-(3).

⁴¹² See Act 56 of 2000 read with the MPRA s 5(1)-(2).

⁴¹³ Refer to the Property Rates Act s (6)(1)-(2). It would seem that the intention of the legislator is that a rates policy, even if adopted by a council, cannot be enforced and implemented if it has not been included and adopted as a municipal by-law. If such interpretation is indeed correct, then it is obvious that the implementation of a rates policy is more cumbersome than a normal municipal by-law. A municipality must first complete all the legal requirements mentioned above before the by-law, which also requires specific procedures, is adopted.

ket value because of legally insecure tenure resulting from past racially discriminatory laws or practices.⁴¹⁴

Although rateable property must be levied, a municipality is not prevented from granting exemptions, rebates or deductions.⁴¹⁵ Under the new legal dispensation a municipality may, in terms of the criteria set out in its rates policy, levy different rates for different categories of rateable property, which may include categories determined according to

- the use of the property
- the permitted use of the property or
- the geographical area in which the property is situated.⁴¹⁶

The levying of different rates is subject to section 19 of the MPRA, however.⁴¹⁷ According to the Act, the categories of rateable property include the following:⁴¹⁸

- (a) Residential properties;
- (b) Industrial properties;
- (c) Business and commercial properties;
- (d) Farm properties used for agricultural purposes; other business and commercial purposes; residential purposes or other purposes;
- (e) Farm properties not used for any purpose;
- (f) Smallholdings used for agricultural, residential, industrial, business, commercial or other purposes;

⁴¹⁴ See the MPRA s 7(1)-(2).

⁴¹⁵ Read the MPRA s 7(2)(b) with s 15. This was also the position under previous laws. Refer to the case of *Association for the Aged v Ethekwini Municipality* 2004 (3) SA 81 (D). In this case, the Association/applicant sought an order declaring certain properties to be exempt from rates according to the Local Authorities Ordinance 25 of 1974 (KZN) s 153. The applicant was registered as a *bona fide* welfare organisation. The court held that the onus was on the applicant to show that it qualified for an exemption under the ordinance. The court also held that an exemption clause should be restrictively interpreted. Since the applicant sold life rights and used the premises exclusively to alleviate distress amongst aged persons and to promote their welfare, security and happiness, the properties were exempt from rates under the ordinance. See paras D-E at 87.

⁴¹⁶ "Permitted use in relation to a property" means the limited purposes for which the property may be used in terms of (a) any restrictions imposed by (i) a condition of title, (ii) a provision of a town planning or land use scheme or (iii) any legislation applicable to any specific property or properties or (b) any alleviation of any such restrictions. Refer to the MPRA s 1.

⁴¹⁷ See the MPRA s 8(1)(a)-(c).

⁴¹⁸ See the Act s 8(2)(a)-(r). Note that property in general means (a) immovable property registered in the name of a person, including, in the case of sectional title scheme, a sectional title unit registered in the name of a person, (b) a right registered against immovable property in the name of a person, excluding a mortgage bond registered against the property, (c) a land tenure right registered in the name of a person or granted to a person in terms of legislation or (d) public service infrastructure. Note also that reference to a person also includes an organ of state. See the MPRA s 1.

- (g) State-owned properties;
- (h) Municipal properties;
- (i) Public Service Infrastructure properties;
- (j) Privately owned towns serviced by the owner
- (k) Formal and informal settlements;
- (l) Communal land defined in the Communal Land Rights Act;⁴¹⁹
- (m) State trust land;⁴²⁰
- (n) Properties acquired through the Provision of Land and Assistance Act⁴²¹ or the Restitution of Land Rights Act⁴²² or which properties are subject to the Communal Property Associations Act;⁴²³
- (o) Protected areas;⁴²⁴
- (p) Properties on which national monuments are proclaimed;
- (q) Properties owned by public benefit organisations and which are used for any specific public benefit activities listed in part 1 of the ninth schedule to the Income Tax Act;
- (r) Properties used for multiple purposes. According to section 9 of the PRA a property used for multiple purposes must, for rates purposes, be assigned to a category determined by the municipality for properties used for:
 - (a) a purpose corresponding with the permitted use of the property if so regulated;
 - (b) a purpose corresponding with the dominant use of the property; or
 - (c) as a multiple purposes category in terms of section 8(2)(r) of the act.⁴²⁵

The Act contains a specific provision regarding the levying of a rate on property in sectional title schemes. Sectional title schemes are created to cater for mainly resi-

⁴¹⁹ 11 of 2004.

⁴²⁰ "State trust land" refers to land owned by the state (a) in trust for persons communally inhabiting the land in terms of a traditional system of land tenure, (b) over which land tenure rights were registered or granted or (c) which is earmarked for disposal in terms of the Restitution of Land Rights Act 22 of 1994. The MPRA s 1 definitions.

⁴²¹ 126 of 1993.

⁴²² 22 of 1994.

⁴²³ 28 of 1996.

⁴²⁴ Such areas mean an area that is or has to be listed in the register referred to in the Protected Areas Act s 10, which refers to the National Environmental Management: Protected Areas Act 57 of 2003.

⁴²⁵ Refer to the MPRA s 9(1)(a)-(c). A rate levied on a property categorised for use for multiple purposes must be determined by apportioning the market value of the property to the different use purposes and by applying the rates applicable to the categories for properties used for these purposes to the different market value apportionments. See the MPRA s 9(2)(a)-(b).

dential and sometimes business or commercial uses. According to the MPRA, a rate on sectional-title properties must be levied on the individual sectional-title units and not on the property as a whole.⁴²⁶

It is further provided that rates levied by municipalities must be in a rand amount and must be based on:

- the market value of the property or
- in the case of public service infrastructure, on the market value thereof, less 30% of that value or on such a lower percentage as the minister for Local Government may determine.⁴²⁷

Property mentioned in section 17(1)(h) of the MPRA is to be levied on the market value less the amount allowed in the section or by the minister.⁴²⁸ An important confirmation is that properties with a market value below a prescribed valuation level may be levied at a uniform fixed amount per property. This provision thus allows the imposition of a so-called flat rate on certain properties. Municipalities are not obligated to implement a flat rate or uniform fixed rate, but if they do opt for such a rate on a specific category of properties, then such fixed amount may not exceed a prescribed percentage of the amount due for rates payable on a property in that category with a market value equal to the prescribed valuation level.⁴²⁹

When rates are being levied, a municipality must levy them for a financial year. Rates lapse at the end of the financial year for which they were levied. The levying of rates must further form part of a municipality's annual budget process and annually, at the time of its budget process, a municipality must review the amount in the rand of its current rates in line with its annual budget for the next financial year. Rates levied for a financial year may be increased during the year only in terms of section 28(6) of the Municipal Finance Management Act.⁴³⁰ Rates further become payable as of the start of a financial year or, if the municipality's annual budget is not approved by the start of a financial year, then from such later date when the budget,

⁴²⁶ See the MPRA s 10 read with s 92.

⁴²⁷ See the MPRA s 11(1)(a)-(b) read with s 17.

⁴²⁸ The MPRA s 11(1)(c). According to the definitions in the Act, "market value" in relation to a property means the value of the property as determined in the Act s 46. Refer to the MPRA s 1 read with s 46.

⁴²⁹ See the MPRA s 11(2)(3).

⁴³⁰ It is imperative to read both the MPRA and the MFMA together in respect of a period of levying of rates. See the MPRA s 12(1)-(3).

including a resolution to levy rates, is approved by the provincial executive in terms of the Municipal Finance Management Act.⁴³¹

A rate is levied by a municipality by resolution passed by the municipal council with a supporting vote of a majority of its members. This apparently refers to an absolute majority of the members of a council.⁴³² A resolution to levy rates must further be promulgated by publishing the resolution in the *Provincial Gazette*. The municipality must also without delay conspicuously display the resolution for 30 days at the head and satellite offices and libraries and on the municipal website if applicable. An advertisement in the media is also required, stating that a resolution to levy rates has been passed and that it is available for inspection.⁴³³

According to section 15 and in terms of the criteria set out in its rates policy, a municipality may exempt a specific category of owners of properties or the owners of specific categories of properties from payment of a levied rate. Rebates or reductions in rates may also be granted. When granting exemptions, rebates or reductions in respect of owners of categories of property, a municipality may determine such categories in accordance with section 8(2) of the MPRA and in respect of categories of owners of properties may include in such categories:

- indigent owners
- owners dependant on pensions or social grants
- owners temporarily without income
- owners of property situated within an area affected by disaster or any other serious adverse social or economic conditions⁴³⁴
- owners of residential properties with a market value lower than an amount determined by the municipality or
- owners of agricultural properties who are *bona fide* farmers.⁴³⁵

⁴³¹ The term “annually” means once every financial year and “financial year” again means the period starting from 1 July in a year to 30 June the next year. See the MPRA s 1 definitions as well as s 13(1)-(2). The payment of rates per year can further be regulated. See also the MPRA ss 17, 55 and 78(4) respectively.

⁴³² An “absolute majority” refers to a majority of 50% + 1 of the total number of members of a municipal council. If, eg, a council thus consists of 100 members, at least 51 members must vote in favour of levying rates. An absolute majority is more difficult to obtain than a normal majority, as the latter requires only 50% + 1 of the members forming a quorum, which is normally 50% of the total number of members of a council.

⁴³³ See the MPRA s 14(2)-(3).

⁴³⁴ “Disaster” is defined in terms of the Disaster Management Act 57 of 2002.

⁴³⁵ The MPRA s 15(2)(a)-(f).

Again it is the responsibility of the municipal manager annually to table in the council a list of exemptions, rebates and reductions during the previous financial year and also to submit a statement reflecting the income forgone by way of such exemptions, rebates and reductions, or exclusions in terms of section 17 of the Act or phasing-in discounts in terms of section 21.⁴³⁶ Finally, all exemptions, rebates and reductions projected for a financial year must be reflected in the municipality's annual budget for that year as income on the revenue side and expenditure on the expenditure side.⁴³⁷

18.5.6.4 Limitations on levying of rates and additional rates

The MPRA reiterates the constitutional requirements set out in section 229(2)(a) of the Constitution. Municipalities may not exercise powers to levy rates on property that would materially and unreasonably prejudice national economic policies, economic activities across municipal boundaries or the national mobility of goods, services, capital or labour. If a rate is contra the constitutional prescriptions, then the Minister of Local Government, after notifying the Minister of Finance, should give notice to a municipality by notice in the national *Gazette* that the rate must be limited to an amount in rand that is specified in the notice. A municipality must then give effect to the notice and, if necessary, accordingly adjust its budget for the next financial year.⁴³⁸ The determination of whether a rate is contra the Constitution is not a clear-cut case, and it is submitted that an objective test is required to make such a finding. However, the MPRA states that any sector of the economy, after consulting the applicable municipality(s) and OLG, may request the minister to evaluate evidence to the effect that a rate is materially and unreasonably prejudicing any of the matters listed above.⁴³⁹ If the minister is convinced of any material and unreasonable effect, he/she must act as set out in subsection 16(2) of the Act. Any notice issued under subsection 16(2) of the Act must be accompanied by reasons why a rate is contra subsection 16(1) and thus also contra section 229 of the Constitution. In order to help municipalities, the minister of Local Government, after consultation with the minister of finance, may by notice issue guidelines to assist municipalities in the exercise of their power to levy rates.⁴⁴⁰

⁴³⁶ Refer to the MPRA s 15(3)(a)-(b).

⁴³⁷ The MPRA s 15(4)(a)-(b).

⁴³⁸ See the MPRA s 16(1)-(2).

⁴³⁹ Read the Constitution ss 16(1) and (3)(a) with s 229.

⁴⁴⁰ See the MPRA s 16(4)-(5).

The new legal framework also determines other impermissible rates that a municipality may not levy. Such impermissible rates include the following:⁴⁴¹

- (a) a rate on the first 30% of the market value of public service infrastructure;⁴⁴²
- (b) a rate on any part of the seashore;⁴⁴³
- (c) a rate on any part of the territorial waters of the RSA;⁴⁴⁴
- (d) a rate on any island of which the state is owner;⁴⁴⁵
- (e) a rate on those parts of a special nature reserve, national park or nature reserve or of a national botanical garden, which are not developed or used for commercial, business, agricultural or residential purposes;
- (f) a rate on mineral rights;⁴⁴⁶
- (g) a rate on a property belonging to a land reform beneficiary or his/her heirs, provided that such an exclusion lapses after ten years from the date on which such title was registered in the office of the registrar of deeds;⁴⁴⁷
- (h) a rate on the first R15 000 of the market value of a property assigned in the municipal valuation roll to a category determined by the municipality for (i) residential properties; or (ii) for properties used for multiple purposes of which one purpose is for residential purposes;⁴⁴⁸
- (i) a rate on a property registered in the name of and used primarily as a place of public worship by a religious community, including an official residence regis-

⁴⁴¹ See the MPRA s 17(1)(a)-(i).

⁴⁴² Note the minister for Local Government may lower the percentage, but only after consultation. See the MPRA s 17(4)(a)-(c).

⁴⁴³ Refer to the definition of the "seashore" as defined in the Seashore Act 21 of 1935.

⁴⁴⁴ See the definition of "territorial waters" determined in terms of the Maritime Zones Act 15 of 1994.

⁴⁴⁵ This includes the Prince Edward Islands referred to in the Prince Edward Islands Act 43 of 1948.

⁴⁴⁶ See the definition of "property" in the MPRA s 1.

⁴⁴⁷ "Land reform beneficiary", in relation to a property, means a person who (a) acquired the property through (i) the Provision of Land and Assistance Act 126 of 1993 or (ii) the Restitution of Land Rights Act 22 of 1994, (b) holds the property subject to the Communal Property Associations Act 28 of 1996 or (c) holds or acquires the property in terms of such other land tenure reform legislation as may pursuant to the Constitution s 25(6) and (7) be enacted after this Act has taken effect. See the MPRA s 1.

⁴⁴⁸ The aim of the legislator is clearly to benefit poor households by not levying rates on property below R15 000 market value. In order to be equitable, every owner will receive such an exemption. Similar provisions have been made in respect of a minimum free water and electricity supply. One must note that such an exemption is applicable only to property being used for residential purposes. Business and commercial properties do not receive the same exemption and are thus treated indifferently. There seems to be a legitimate reason for exempting residential property in this manner and, more specifically, in light of the constitutional objects and demands on local government, a constitutional attack on equality grounds will not easily suffice. The minister of Local Government may increase the monetary threshold. See the MPRA s 17(3).

tered in the name of that community which is occupied by an office bearer of that community.⁴⁴⁹

The exclusion from rates lapses if the status of a property changes, from national land to something else, for example. If an exemption is withdrawn, rates by a private owner that would have been payable were it not for the exemption become payable.⁴⁵⁰ The amount payable when an exemption is withdrawn must be regarded as rates in arrears, and interest is applicable on such an amount. Such a position seems somewhat unreasonable. Why should an owner be liable for rates which have been legally exempted and for the interest on such rates? The MPRA clarifies the situation somewhat by stating that such rates and interest are applicable only if the declaration of the property was withdrawn because of a decision of the private owner to withdraw from the agreement regarding the property or because of a decision by the state to withdraw from the agreement because of a breach of the agreement by the private owner.⁴⁵¹ It is of interest to note that a municipality is permitted to apply, in writing, to the minister of Local Government, to be exempted from paragraph 17(a), (e), (g) or (h) of the MPRA if it can demonstrate that an exclusion to levy such rates is compromising or impeding its ability or right to exercise its powers or to perform its functions within the meaning of the Constitution.⁴⁵² What this position really means is that, in certain instances, municipalities may be permitted to levy rates on property which are usually regarded as impermissible/exempted rates. Any exemption granted by the minister must be in writing and is subject to such limitations or conditions as he/she may determine.⁴⁵³

In order to protect owners of properties, the MPRA determines that a municipality may not levy:

- different rates on residential property, except as provided for in sections 11, 21 and 89 of the Act

⁴⁴⁹ Although such exemption was also allowed under the previous legal dispensation, religious communities should note the requirements of the MPRA s 16(1)(i) regarding the exemption of official residences of religious communities. Exclusion from these rates also lapses if the property is disposed of by the religious community or if the residence is not used as required. See the MPRA s 17(5).

⁴⁵⁰ See the MPRA s 17(2).

⁴⁵¹ The MPRA s 17(d)(i)-(ii).

⁴⁵² Read the MPRA s 18(1) with the Constitution s 151(4).

⁴⁵³ The MPRA s 18(2)(a)-(b).

- a rate on non-residential properties that exceeds a prescribed ratio to the rate on residential properties⁴⁵⁴
- rates which unreasonably discriminate between categories of non-residential properties or
- any additional rates except as provided for in section 22 of the Act.⁴⁵⁵

It is further the responsibility of the minister of Local Government, with the concurrence of the minister of finance, to set an upper limit on the percentage by which rates on properties or a rate on a specific category of properties may be increased. However, different limits may be set for:

- different kinds of municipality or
- different categories of property, subject to section 19.⁴⁵⁶

The MPRA also determines a compulsory phasing-in of certain rates. According to the Act, a rate levied on newly rateable property must be phased in over a period of three financial years, subject to subsection 21(5) of the Act.⁴⁵⁷ Furthermore, a rate levied on property belonging to a land reform beneficiary must be phased in over a period of three financial years after the exclusion period set out in section 17(1)(g) has lapsed, subject to section 21(5). A rate levied on newly rateable property owned and used by organisations conducting specified public benefit activities and who are registered in terms of the Income Tax Act for those activities must be phased in over a period of four financial years.⁴⁵⁸ In the first year, the phasing-in discount on newly rateable properties or on properties belonging to a land reform beneficiary must be at least 75% of the rate otherwise applicable to the property for that year, in the second year at least 50%, and in the third year at least 25%.⁴⁵⁹ During the first year no rate may be levied on newly rateable property owned and used by organisations conducting specified public benefit activities. After the first year, the phasing-in discount on

⁴⁵⁴ See the MPRA s 19(a)(b) read with s 11(1)(a). The ratio may only be prescribed with the concurrence of the minister of finance. S 19(2).

⁴⁵⁵ See the MPRA s 19(1)(a)-(d).

⁴⁵⁶ The minister may on application by a municipality and on good cause exempt a municipality from a set limit. See the MPRA s 20(1)-(4) read together with the MFMA s 43.

⁴⁵⁷ Note that according to the definitions in the MPRA s 1, "newly rateable property" means any rateable property on which property rates were not levied before the end of the financial year preceding the date on which the Act took effect. Properties which were (a) incorrectly omitted from the valuation roll or (b) identified by the minister where the phasing-in of a rate is not justified, are excluded from the definition.

⁴⁵⁸ Refer to the MPRA s 21(a)-(c).

⁴⁵⁹ The MPRA s 21(2)(a)-(e).

such property must be at least 75% in the second year, at least 50% in the third year and at least 25% in the fourth year.⁴⁶⁰ A rate levied may also not be higher than a rate levied on similar property or category of property. On written request by a municipality, the MEC for Local Government may extend the phasing-in periods mentioned above. No phasing-in period may exceed six financial years, however.⁴⁶¹ If the MEC has extended a phasing-in period, he/she must determine the minimum phasing-in discount during each financial year of the extended period.

The new rating legislation also provides for additional rates and special rating areas. According to section 22 of the MPRA and by resolution of its council, a municipality may:

- determine an area as a special rating area
- levy an additional rate on property in that area for the purpose of raising funds for improving or upgrading that area
- differentiate between categories of properties when levying an additional rate.⁴⁶²

Since additional rates would place a more significant financial burden on certain property owners, it is required that before a municipality determines a special rating area, it must first consult the local community on the proposed boundaries of the area and also on the proposed improvement or upgrading required. Apart from this mandatory consultation obligation, the municipality must also obtain the consent of the majority of members of the local community in the proposed special rating area, who will be liable for paying the additional rate.⁴⁶³ When a municipality determines a special rating area, it must:

- determine the boundaries of the area

⁴⁶⁰ See the MPRA s 21(3)(a)-(c). It must be noted that according to the definitions of the Act that specified public benefit activity means an activity listed in the Income Tax Act Ninth Sch Part 1 Item 1 (welfare and humanitarian), Item 2 (health care) and Item 4 (education and development).

⁴⁶¹ See the MPRA s 21(4)-(6).

⁴⁶² Refer to the MPRA s 22(1)(a)-(c). Since the resolution of the council concerns the levy of rates, it is submitted that such a resolution requires also an absolute majority of members to vote in favour thereof. The differentiation mentioned in s 22(1)(c) could, eg, result in business properties' bearing the brunt of an additional levy, while residential properties in the particular area are excused from such additional levies. It seems clear that additional levies may be levied only if funds are needed to improve or upgrade a particular area. Cross-subsidising through additional levies are not allowed. An objective assessment of all relevant factors must be conducted in this regard.

⁴⁶³ "A majority" in this respect seems to refer to 50% + 1 of the total number of members of the relevant local community. It should be noted that not all members of the community need to be consulted, but only those members who will be liable for paying the additional rate. The intention of the legislator thus seems only to obtain a majority decision from persons/institutions responsible for pay property rates. See the MPRA s 2(a)-(b).

- determine how the area is to be improved or upgraded from the additional funds
- establish separate accounting and other record-keeping systems regarding the revenue generated by the additional rate and the improvement or upgrading of the particular area(s).

A municipality may further establish a committee comprising persons representing the community in the area as a consultative/advisory forum for the municipality on the improvement/upgrading. Representivity must be taken into account when the committee is established. The committee must then further be a subcommittee of the ward committee(s) in the area, if ward committees are applicable.⁴⁶⁴ A special rating area must not be used to reinforce existing inequities in the development of the municipality and must also be consistent with the objectives of the municipality's integrated development plan.⁴⁶⁵

18.5.6.5 The municipal register of properties

All municipalities levying rates on property are obligated to establish and maintain a property register in respect of all properties situated within the municipal area. Such a register must consist of two parts: a part A and a part B. Part A should consist of the current valuation roll of the municipality and, if applicable, supplementary valuation rolls. Part B must specify which properties are subject to exemption, rebate, reduction in phasing-in rate or an exclusion.⁴⁶⁶ The register must be open for inspection by the public during office hours and displayed on the municipal website if applicable. Finally, a municipality must regularly, but at least once a year, update part B of the register.⁴⁶⁷

18.5.6.6 Liability for property rates

A rate levied on property must be paid by the owner of the property.⁴⁶⁸ Joint owners are normally jointly and severally liable for the amounts due for rates on that property. In respect of agricultural property owned by more than one owner in individual

⁴⁶⁴ The MPRA s 22(3)(a)-(d).

⁴⁶⁵ See the MPRA s 22(4). Read also the Systems Act s 85 if additional rates are applied to providing funding for an internal municipal service district.

⁴⁶⁶ Read the MPRA s 23(1)-(3) with ss 15, 21 and 17.

⁴⁶⁷ The MPRA s 23(4)-(5). Part A must be updated in accordance with the provisions of the MPRA relating to the updating and supplementary of valuation rolls. Refer to the MPRA ch 8 for more details. Note that the term "register" generally means (a) to record in a register in terms of (i) the Deeds Registries Act 47 of 1937 or (ii) the Mining Titles Registration Act 16 of 1967 and (b) includes any other formal Act in terms of any other legislation to record (i) a right to use land for or in connection with mining purposes or (ii) a land tenure right. See the MPRA s 1.

⁴⁶⁸ See the MPRA s 24(1) read with the Systems Act ch 9.

shares as legally allowed before the commencement of the Subdivision of Agricultural Land Act,⁴⁶⁹ a municipality is allowed to hold any one of the joint owners liable for all rates or hold any joint owner liable for only that portion of the rates that represents his/her undivided share in the property.⁴⁷⁰ One must note that the term “owner” has an expansive meaning. According to section 1 of the MPRA, the term *owner* means:

- a person in whose name ownership of property is registered
- a person in whose name a right to property is registered
- a person in whose name a land tenure right is registered or to whom the right was granted
- the organ of state which owns or controls a public service infrastructure. Apart from the abovementioned categories, the following persons/functionaries may for the purposes of the MPRA be regarded by a municipality as the owner of property in the following circumstances:
 - (a) a trustee of property in a trust⁴⁷¹
 - (b) an executor or administrator of property in a deceased estate
 - (c) a trustee or liquidator of property in an insolvent estate/liquidation
 - (d) a judicial manager of property of a person under judicial management
 - (e) a curator of property of a person under curatorship
 - (f) a person in whose name a usufruct or other personal servitude is registered regarding property subject to such usufruct or personal servitude
 - (g) a lessee of a property that is registered in the name of a municipality and is leased by it⁴⁷²
 - (h) a buyer of a property sold by a municipality and of which possession was given to the buyer pending registration of ownership in the name of the buyer.⁴⁷³

⁴⁶⁹ 70 of 1970.

⁴⁷⁰ See the MPRA s 25(a)-(b).

⁴⁷¹ State trust land is however excluded in this regard.

⁴⁷² In this regard, lessees and a lawyer advising such lessees should take into account that the lessee could be held liable for property rates even though the property belongs to a municipality. A clear compromise or deduction from rent should be negotiated and contractually confirmed.

⁴⁷³ Again this provision requires careful consideration by prospective buyers, property lawyers and estate agents. Buyers must be advised of this liability. In cases where properties which do not belong to a municipality are sold, it would appear that the seller/current registered owner will stay liable for property rates up until the registration of transfer of the property to the new

continued on next page

Rates levied on a sectional title unit are payable by the owner of the unit. Municipalities may not recover the rates on sectional title units or any parts thereof from the body corporate, except when the body corporate is the owner of any specific sectional-title unit. Body corporates are equally not permitted to apportion and collect rates from owners of units.⁴⁷⁴

In respect of the method and time of payment, it is determined that a municipality may recover a rate on a monthly basis or annually, as may be agreed to with the property owner. Rates are payable on or before a date(s) determined by the municipality. Only in special circumstances may the payment of a rate be deferred.⁴⁷⁵ A municipality is obligated to furnish each person/owner liable for the payment of a rate with a written account, which account must specify the following:

- the amount due for rates
- the date for payment
- how the amount was calculated
- the market value of the property
- the phasing-in discount, if applicable
- any additional rates, if applicable.⁴⁷⁶

Delivery of an account is no prerequisite for collecting the applicable rate, however. A person/owner is liable for payment whether or not he/she has received an account. If no account is received, the onus is on the person/owner to make the necessary inquiries from the municipality.⁴⁷⁷ If an amount due for rates is unpaid after the determined date, then the municipality may recover the amount in whole or in part from a tenant or occupier of the property, despite any contractual obligation to the contrary on the tenant or occupier.⁴⁷⁸ The amount may be recovered only after the municipality has served a written notice on the tenant or occupier. The amount recoverable from a tenant/occupier is limited to the amount of rent or other money

owner/purchaser. Parties will be well advised to specify and address such issues in clear terms in their agreements of sale.

⁴⁷⁴ See the MPRA s 25(1)-(4) read with s 92.

⁴⁷⁵ See the MPRA s 26(1)-(3). Recovery of rates may also take place less often than a month as prescribed in terms of the MFMA.

⁴⁷⁶ Refer to the MPRA s 27(1)(a)-(f).

⁴⁷⁷ Read the MPRA s 27(2)-(3). Note also that the furnishing of accounts is subject to the Systems Act s 102.

⁴⁷⁸ "An occupier", in relation to a property, means a person in actual occupation of a property, whether or not that person has a right to occupy the property.

due and payable, but which has not yet been paid to the owner of the property, however. The tenant must set off any such amount paid to the municipality against any money owed by the tenant/occupier to the owner.⁴⁷⁹ A further method of recovery of rates is provided through section 29 of the MPRA. According to this section and despite the Estate Agents Affairs Act,⁴⁸⁰ a municipality may recover the amount due for rates on a property in whole or in part from the agent of the owner, if such a way is more convenient for the municipality. Again the agent must be served with a written notice to recover the due rates, and the amount recoverable is limited to the amount of any rent or other money received by the agent on behalf of the owner, less any commission due to the agent.⁴⁸¹ On request, the agent must furnish the municipality with a written statement specifying all payments received by the agent on behalf of the owner.⁴⁸²

18.5.6.7 General aspects concerning the valuation of rateable property

In accordance with the MPRA, a municipality that intends to levy a rate on property must cause a general valuation to be made of all properties in its area and prepare a valuation roll of such properties.⁴⁸³ All the rateable properties in a municipal area must be valued during a general valuation exercise, including all properties fully or partially excluded from rates. Properties referred to in section 7(2) of the Act must be valued only to the extent that rates are to be levied on them. The minister of Local Government may further fully or partially exempt a municipality from the obligation to value properties excluded from rates in section 17(1)(e), (g) and (i) of the Act, if the municipality can demonstrate that the valuation of such properties is too onerous for

⁴⁷⁹ It is clear that the legislator's intention is to allow municipalities a quick mechanism to recover non-levy payments by property owners. Although such mechanism is laudable, it is somewhat uncertain if such statutory form of recovery and obligation for set off by the tenant/occupier will withstand constitutional or other legal challenges. It is very likely that tenants/occupiers in such circumstances will suffer victimisation and other pressures from property owners. To what extent a tenant and property owner can be forced to make public the content and value of a private lease agreement or to what extent the contractual freedom between the parties can be overruled from the outside is unknown and somewhat problematic. There seems also to be an unnecessary burden on tenants/occupiers in cases where property owners default on the rates payments. In this regard, eg, a tenant/occupier must on request by a municipality furnish it with a written statement specifying all payments to be made by the tenant/occupier to the owner of the property for rent or other money payable on the property. See the MPRA s 28(4).

⁴⁸⁰ 112 of 1975.

⁴⁸¹ "An agent", in relation to the owner of a property, means a person appointed by the owner of the property (a) to receive rental or other payments in respect of the property on behalf of the owner or (b) to make payments in respect of the property on behalf of the owner. See the MPRA s 1.

⁴⁸² See the MPRA s 29(1)-(4).

⁴⁸³ Read the MPRA s 30(1)(a)-(b) with ss 30(2) and (3).

it, given its financial and administrative capacity. All valued properties must be included in the valuation roll.⁴⁸⁴ For purposes of the general valuation, a municipality must determine a date that may not be more than 12 months before the start of the financial year in which the valuation roll is first to be implemented. The general valuation must reflect the market value of the properties in accordance with market conditions at the date of the valuation and other statutory requirements.⁴⁸⁵

A valuation roll mentioned above will take effect from the start of the financial year following the completion of the public inspection period set out in section 49 of the MPRA. The valuation roll further remains valid for that financial year or for one or more subsequent financial years as the municipality may decide. In normal circumstances, no valuation roll may remain valid for longer than four financial years.⁴⁸⁶ The MEC for local government may extend the period for which a valuation roll remains valid to five years maximum, however. Such extension is permitted only if the provincial executive has intervened in the municipality or on request by the municipality, in exceptional circumstances which warrant such extension.⁴⁸⁷ It must also be noted that a valuation roll remains valid for one year after the date on which the roll has lapsed if the provincial executive intervenes in terms of section 139 of the Constitution, which intervention could have been either before or after such a date. However, this position is subject to the fact that the intervention was caused by a municipality's failure to determine a date of valuation for its general valuation or its failure to designate a person as its municipal valuer.⁴⁸⁸ It is therefore clear that unless exceptional circumstances exist, a municipality will have to conduct a general valuation of all property in its area every four years or on such intervals as it may have decided.

In order to compile a valuation roll, a municipality must designate a person as its municipal valuer before the date of valuation. This person may either be one of the financial officials of the municipality or a person in private practice. If a private practitioner is appointed, the municipality must follow an open, competitive and transparent process and must designate the successful bidder as its municipal valuer by way

⁴⁸⁴ See the MPRA s 30(2)-(3).

⁴⁸⁵ Read the MPRA s 31(1)-(2).

⁴⁸⁶ See the MPRA s 32(1)(a)-(b). This position reflect to some degree the similar position as was applicable under the previous legal dispensation.

⁴⁸⁷ Read the MPRA s 32(2)(a)-(b) together with the Constitution s 139.

⁴⁸⁸ Refer to the MPRA s 32(3)(a)-(b) read with ss 31 and 33.

of a written contract.⁴⁸⁹ The designation/appointment of a municipal valuer may be withdrawn/cancelled only on the grounds of misconduct, incapacity, incompetence, non-compliance with the MPRA, under-performance or breach of contract, if applicable.⁴⁹⁰

A municipal valuer has a vast number of functions to perform. Such a person is obligated, *inter alia*, to

- value all properties
- prepare a valuation roll
- sign and certify the valuation roll
- submit the valuation roll to the municipal manager
- consider and decide objections to the roll
- attend every meeting of an appeal board hearing appeals or reviews of his/her decisions
- prepare supplementary rolls
- assist the municipality in collection/obtaining postal addresses of property owners
- generally provide appropriate administrative support incidental to the valuation roll.⁴⁹¹

In order to assist a municipal valuer, a municipal manager may designate officials/persons in private practice as assistant municipal valuers. Similar requirements applicable to the municipal valuer are prescribed in relation to assistant municipal valuer.⁴⁹² A municipal manager may also designate officials or even non-officials of the municipality as data-collectors in order to assist the municipal valuer with the collection of data and other related work. Data-collectors appointed from outside the municipal staff component are remunerated from municipal funds, but only in terms of the contracts concluded with them.⁴⁹³

In an effort to help a municipal valuer to fulfil his/her functions and obligations, the MPRA determines that the valuer may delegate any powers or duties reasonably

⁴⁸⁹ See the MPRA s 33(1)-(2), read with the MFMA ch 11. The written contract should set out the terms and conditions of the designation and the person must be issued with an identity card with personal photograph for identification purposes. Read the MPRA s 33(3).

⁴⁹⁰ The MPRA s 33(4)(a)-(d).

⁴⁹¹ See the MPRA s 34(a)-(i).

⁴⁹² Refer to the MPRA s 35(1)-(5).

⁴⁹³ All data-collectors are also issued with ID cards and may be removed from such a designation. Normal contractual laws should be applicable in such instances. See the MPRA s 36(1)-(5). A data-collector is a person designated as such. Refer to s 1 definitions.

necessary to an assistant municipal valuer to assist the valuer. Powers and duties in the collection and processing of data may also be delegated to a data-collector. The valuer must regularly review such delegations and, if necessary, amend or withdraw such delegations. Delegations must be in writing, subject to the limitations and conditions determined in the delegation and not divest the valuer of the responsibility of the delegated powers. The valuer may also confirm, vary or revoke any decision taken in terms of the delegation, but any such action may not detract from any rights that may have accrued as a result of the decision.⁴⁹⁴ In order to save costs and obtain expertise, a municipality may enter into an agreement with another municipality(s) to designate a single municipal valuer and to share the costs of preparing the different municipal valuation rolls. This sharing possibility is not permitted if the municipality concerned agrees to appoint an official of one of the partaking municipalities as the municipal valuer.⁴⁹⁵

Specific qualifications of municipal valuers are prescribed. The new legislative system determines that a municipal valuer:

- must be registered as a professional valuer or associated valuer in terms of the Property Valuers Profession Act⁴⁹⁶ and
- may not be a councillor of the designating municipality or other involved municipalities.⁴⁹⁷

An assistant valuer must also have the same qualifications of a municipal valuer, except that a candidate valuer registered under the Property Valuers Profession Act may also be designated.⁴⁹⁸ Before assuming office, a valuer or assistant valuer must make a prescribed declaration before a Commissioner of Oaths regarding the performance of the office and must lodge a copy of such a declaration with the municipal manager.⁴⁹⁹

It is common cause that all rateable property must be valued in order to determine the applicable rate payable. In order to value property and to establish the municipal valuation roll, access to all rateable property is required. To facilitate such access,

⁴⁹⁴ The MPRA s 37(1)-(3).

⁴⁹⁵ Refer to the MPRA s 38(1)-(2). Sharing of a municipal valuer is thus permitted only if the designated person is a private practitioner.

⁴⁹⁶ 47 of 2000.

⁴⁹⁷ See the MPRA s 39(1)(a)-(b).

⁴⁹⁸ The MPRA s 39(2)(a)-(b). No councillor may be an assistant municipal valuer.

⁴⁹⁹ The MPRA s 40(a)-(b).

the MPRA states that subject to any legislation that restricts or prohibits entry to any specific property, the municipal valuer, assistant valuer, data-collector or other authorised person may enter any property that must be valued and inspect that property for purposes of the valuation, between 07:30 and 19:00 on any day, except a Sunday or public holiday. When entering a property, the person must, on demand by a person on that property, produce his/her identification card. The valuer or other official may also be accompanied by an interpreter or other functionaries.⁵⁰⁰ A municipal valuer/other functionary may further require the owner/tenant/occupier of a property to give the valuer access to any document or information in his/her possession, which document or information is reasonably required for purposes of valuing the property. The valuer may make extracts from such documents or information and may also in writing require the owner/tenant/occupier or agent of owner, to provide the valuer either in writing or orally with particulars regarding the property which the valuer reasonably requires for the valuation.⁵⁰¹ Owners/occupiers/tenants should be careful about refusing to supply the information/documentation, since the MPRA determines that where a document/information was not provided, but the owner later relies on such a document/information in an appeal against the valuation, the appeal board hearing such an appeal may make an order as to costs if the board is of the view that the failure has placed an unnecessary burden on the functions of the valuer or appeal board.⁵⁰²

Valuers and assistant valuers are obligated to conduct the functions within a certain code of conduct. Every municipal valuer/assistant valuer must disclose any personal or private business interest to the municipality regarding any property in the municipality. The position/office as valuer may also not be used for private gain or improperly benefit another person. Furthermore each valuer/assistant valuer must comply with the code of conduct for municipal officials, as set out in Schedule 2 of the Systems Act.⁵⁰³ A valuer/assistant valuer who contravenes/fails to comply with

⁵⁰⁰ See the MPRA s 41(1)-(3). In certain circumstances a valuer or other inspecting person may also be accompanied by security personnel, should such assistance be required by the circumstances. It is also submitted that any access to property must at least comply with any constitutional requirements. Examples of such rights are the right to privacy and property, to name but two.

⁵⁰¹ Read the MPRA s 42(1)(a)-(c).

⁵⁰² The MPRA s 42(2).

⁵⁰³ Read the MPRA s 43(1)(a)-(c) together with the Municipal Systems Act Sch 2. According to s 43(2), a municipal valuer/assistant valuer who is not an official of a municipality must comply with the code of conduct as if that person is such an official.

the requirements is guilty of misconduct and subject to dismissal. A decision to dismiss a valuer/assistant who is an employee of the municipality must be based on a finding of an enquiry conducted in terms of the terms and conditions of employment of the person.⁵⁰⁴ If a municipal valuer/assistant has an interest in property or his/her spouse, parent, child, partner or business associate, the municipal manager must designate a special valuer to perform such valuation.⁵⁰⁵ Owners of the property should note that a municipal valuer or other functionary may not disclose to any person any information obtained except

- if allowed to in terms of the MPRA
- for the purpose of legal proceedings or
- in terms of court orders.⁵⁰⁶

18.5.6.8 Aspects concerning property valuation criteria

The new uniform Property Rates Act determines that all property must be valued in accordance with generally recognised valuation practices, methods and standards. Physical inspection, all often very useful, is optional. Comparative, analytical or even other systems or techniques may be used, including aerial photography and computer-assisted mass appraised systems/techniques. In cases where the available market-related data of any category of rateable property is not sufficient, such property may be valued in terms of mass-valuation systems. Such mass-evaluation systems/techniques should be approved by the municipality concerned after having considered any recommendations of its municipal valuer and as may be appropriate in the circumstances. Mass-valuation systems/techniques may include a system based on predetermined bands of property values and the designation of properties to one of those bands on the basis of minimal market-related data.⁵⁰⁷ Subject to the provisions of the MPRA, the market value of a property is the amount that the property would have realised had it been sold on the date of valuation in the open market by a willing seller to a willing buyer. In order to determine the market value of a prop-

⁵⁰⁴ The section thus requires an inquiry in accordance with applicable labour relations practices and requirements. The municipality's normal disciplinary procedures would thus come into play. See the MPRA s 43(3)-(4).

⁵⁰⁵ See the MPRA s 43(5). A special valuer must be qualified similarly to the normal municipal valuer. Refer to s 39 qualifications.

⁵⁰⁶ See the MPRA s 44(1)(a)-(d). The protection of information clause is also applicable to any person accompanying a municipal valuer or other functionary, when performing his/her functions under the MPRA s 41(1).

⁵⁰⁷ See the MPRA s 45(1)-(3).

erty, the following aspects must be considered for purposes of valuating a property:⁵⁰⁸

- (a) the value of any license, permission or other privilege legally granted to the property;
- (b) the value of any immovable improvement on the property that was erected or is being used for a purpose which is inconsistent with or in contravention of the permitted use of the property;
- (c) the value of the use of the property for a purpose which is inconsistent with the permitted use.⁵⁰⁹

The following issues must be disregarded for purposes of valuation:⁵¹⁰

- the value of any building or other immovable structure under the surface of the property which is the subject of any mining authorisation or mining right as defined in the Minerals Act⁵¹¹
- the value of any equipment or machinery which is regarded as immovable property, excluding a lift, an escalator, an air-conditioning plant, fire extinguishing apparatus, a water pump installation for a swimming pool/irrigation or domestic purposes and any other equipment/machinery that may be prescribed⁵¹²
- any unregistered lease in respect of the property.

When determining the market value of a property used for agricultural purposes, the value of any annual crops or growing timber that have not yet been harvested at the date of the valuation must be disregarded.⁵¹³ Where available, the market value of public service infrastructure may be valued in accordance with any other prescribed method of valuation.⁵¹⁴ In respect of sectional-title schemes, the valuer must determine the market value of each sectional title unit in accordance with the provisions of section 46 of the MPRA.⁵¹⁵

⁵⁰⁸ See the MPRA s 46(a) and (c).

⁵⁰⁹ Any unlawful use/improvement is regarded for valuation purposes as if the use/improvement was lawful.

⁵¹⁰ See the MPRA s 46(3)(a).

⁵¹¹ 50 of 1991.

⁵¹² Prescribed in this sense refer to prescribe by regulation in terms of the MPRA s 83.

⁵¹³ Refer to the MPRA s 46(4).

⁵¹⁴ The MPRA s 46(5).

⁵¹⁵ See the MPRA s 47.

18.5.6.9 Aspects regarding municipal valuation rolls

All valuation rolls must list all rateable properties in their respective municipal areas. Specific particulars that must be reflected on the roll, if such information is reasonably determinable, are:

- the registered or other description of the property
- the category in which the property falls
- the physical address
- the extent of the property
- the market value, if valued
- the name of the owner and
- any other prescribed particulars.⁵¹⁶

The municipal valuer must submit the certified valuation roll to the municipal manager, who must within 21 days of receipt of the roll publish in the *Provincial Gazette*, once a week for two consecutive weeks, a notice stating:

- that the roll is open for public inspection for a specified period and
- which invites every person who wishes to lodge an objection against the roll in the prescribed manner and period.⁵¹⁷

The municipal manager must further disseminate the substance of the notice to the local community and serve by ordinary mail, if appropriate, on every owner a copy of the notice, together with an extract of the valuation roll pertaining to the relevant property.⁵¹⁸ Both the notice and the valuation roll must also be published on the municipality's website, if applicable. Any person may, after publication of the notice, inspect the roll during office hours, and on payment of a reasonable fee, request extracts from the roll and may also lodge an objection with the municipal manager against any matter reflected/omitted from the roll. An objection must be in relation to a specific individual property and not against the valuation roll as such.⁵¹⁹ Objectors

⁵¹⁶ Read the MPRA s 48(1)-(2)(a)-(g). The minister may prescribe further particulars.

⁵¹⁷ See the MPRA s 49(1)(a)(i)-(ii). The inspection period may not be less than 30 days from the date of the publication of the last/second notice in the *Provincial Gazette*.

⁵¹⁸ Refer to the MPRA s 49(1)(b)-(c). These requirements must be read with the requirements set out in the Municipal Systems Act ch 4 and s 115.

⁵¹⁹ It seems that since the Act allows *any person* (own emphasis added) to lodge an objection, it is therefore not necessarily the owner of a particular property that has such a right. It would thus seem possible that a person could lodge an objection to the valuation of other property owners. See the MPRA s 50(1).

who are unable to read or write must be assisted by the municipal manager.⁵²⁰ It is not only private persons that may lodge an objection; a municipal council itself may lodge an objection with the municipal manager against the valuation roll that affects the interests of the municipality. The municipal manager must within 14 days of the end of the objection period submit all objections to the municipal valuer, who is again obligated to decide and dispose of the objections promptly. It is important to note that the lodging of an objection does not defer liability of payment of rates beyond the payment date.⁵²¹ When considering and processing objections, the municipal valuer must promptly consider the objections, decide them on facts and adjust or add to the valuation roll, depending the decision taken.⁵²²

The new legislative framework also provides for the compulsory review of decisions of the municipal valuer. In this regard it is provided that if a municipal valuer adjusts the valuation of a property by more than 10% upwards or downwards, then the valuer must give written reasons for such a decision to the municipal manager, who must, in turn, promptly submit the relevant valuation decision, together with reasons and documentation, to the relevant valuation appeal board, for review.⁵²³ The relevant appeal board is then obligated to review the decision and either to confirm, amend or revoke the decision.⁵²⁴

It is further required that a municipal valuer must in writing notify every objector and also the owner of a property if not the same, of the valuer's decision, any adjustments made to the roll and whether a section 52 automatic appeal is applicable.⁵²⁵ An objector or owner may in writing, and within 30 days after such notification, apply to the municipal manager for reasons for the decision. A prescribed fee must accompany the application. Within 30 days after receipt of such application through the

⁵²⁰ It seems obvious that the Act does not require the municipal manager to act in his/her personal capacity, but rather that personnel from his/her office provide such assistance. The municipal manager stays finally responsible for such assistance, however. The MPRA s 50(3).

⁵²¹ See the MPRA s 50(4)-(6). Payment of rates by property owners whilst an objection is still undecided, is somewhat controversial. It seems that the Act requires payment first and possible settlement/adjustments later. Such a situation could put legitimate objectors in a negative position vis-à-vis their relevant municipalities. The constitutionality of such a position is somewhat doubtful.

⁵²² Note that the minister may prescribe the objection procedure and also that the objections should be evaluated with due regard to the submissions of an objector, which can be the owner of the property concerned or any other person. See the MPRA s 51(a)-(c).

⁵²³ Read the MPRA s 52(1)(a)-(b).

⁵²⁴ If an appeal board amends or revokes a decision, the chairperson of such a board and the valuer must ensure that the valuation roll is adjusted according to the decision of the board. the MPRA S 52(3).

⁵²⁵ See the MPRA s 53(1)(a)-(c).

municipal manager, the relevant valuer must then provide the applicant the reasons for the decision in writing.⁵²⁶ After receipt of the written reasons for a decision, an appeal to an appeal board against the decision may be lodged in the prescribed manner with the office of the municipal manager. Such an appeal may be lodged by either an objector, an owner of a property who is affected by the decision and the municipal council concerned, if the municipality's interests are affected. An appeal by an objector must be lodged within 30 days after the date on which the written notice was sent to the objector or after 21 days after the day on which the reasons for a decision were sent to an objector who has requested such reasons. An owner of a property must lodge an appeal within 30 days after the date on which the written notice was sent, or within 21 days after the date on which the decision was taken.⁵²⁷ A municipal manager must then forward any appeal to the chairperson of the appeal board within 14 days after the end of any applicable appeal period. The chairperson of the appeal board must then, for purposes of considering any appeal, convene a meeting of the board within 60 days after an appeal has been forwarded. A copy of the appeal must also be submitted to the municipal valuer concerned. Again the MPRA determines that an appeal lodged does not defer liability for payment.⁵²⁸ Finally, it is determined in the Act that any adjustments or additions made to a valuation roll will take effect on the effective date of the valuation roll.⁵²⁹ If an adjustment in the valuation of a property affects the amount due for rates, then the municipal manager must calculate the amount actually paid and the amount payable in terms of the adjustment calculated since the effective date. The municipal manager must then recover or repay the rates to the liable person: the difference together with interest at a prescribed rate.⁵³⁰

⁵²⁶ The MPRA s 53(2)-(3).

⁵²⁷ See the MPRA s 54(1)-(2).

⁵²⁸ Refer to the MPRA s 54(3)-(4).

⁵²⁹ According to the definitions set out in the MPRA s 1, the term "effective date" means the date on which a valuation roll has taken effect in terms of the Act s 32(1) or the date on which a supplementary valuation roll has taken effect in terms of the Act s 78(2)(b).

⁵³⁰ See the MPRA s 55(1)-(3). Where additions to a valuation roll were made, the municipal manager must also recover from the liable person, payment of the rate because of the addition, plus interest as prescribed.

18.5.6.10 Requirements and determinations pertaining to valuation appeal boards

The MEC for local government in a province is authorised to establish as many appeal boards in the province as may be necessary. There must be no fewer than one such an appeal board in each district municipality and each metropolitan municipality, however.⁵³¹ If more than one appeal board is established in a district municipality, each board must be established for one or more local municipalities or even district management areas.⁵³² The main function of an appeal board is twofold:

- It should hear and decide appeals under the Act.
- It should review decisions of a municipal valuer submitted under section 52 of the Act.⁵³³

With reference to the composition of an appeal board, the PRA determines that each appeal board should consist of a chairperson, who must be a person with legal qualifications and sufficient experience in the administration of justice, and not fewer than two and not more than four other members with sufficient knowledge of or experience in the valuation of property. Of such persons, at least one must be a professional valuer registered in terms of the Property Valuers Profession Act. All members of an appeal board must be appointed by the MEC, taking into account the need for including representivity as well as gender representivity. When making appointments, the MEC must follow a transparent process.⁵³⁴ The following persons are legally disqualified from being a member of an appeal board, however:

- an unrehabilitated insolvent
- a person under curatorship
- a person declared to be of unsound mind by a court of the Republic of South Africa
- a person who, after 24 April 1994, was convicted of an offence and sentenced to imprisonment without an option of a fine for a period of not less than 12 months
- a person who has been disqualified in terms of applicable legislation from practising as a valuer or a lawyer⁵³⁵

⁵³¹ Notice of the appeal boards must be given in the *Provincial Gazette* of the province.

⁵³² See the MPRA s 56(1)-(2).

⁵³³ Read the MPRA s 57(a)-(b).

⁵³⁴ See the MPRA s 58(1)-(3).

⁵³⁵ Refer to the Property Valuers Profession Act 47 of 2000 and the Attorney's Act 53 of 1979.

- a person who is in arrears to a municipality for rates or services charges for a period longer than three months.⁵³⁶

A member of an appeal board who is a councilor, employee or valuer of a municipality must withdraw from the proceedings of the board if a matter concerning that municipality's valuation roll is being considered by the board.⁵³⁷ The normal term of office of members of an appeal board is four years, but members are eligible to be reappointed.⁵³⁸ After consultation with the MEC, the minister of Local Government must determine the conditions of appointment of members of an appeal board. Conditions of appointment may differ between the chairperson and other members. The municipality or municipalities for which an appeal board was established must remunerate the members of the board according to the conditions of appointment and the directions of the MEC.⁵³⁹ All members of appeal boards must perform their duties in good faith and without fear, favour or prejudice. Any personal or private business interest of a member in a matter on appeal must be disclosed, and such a member must withdraw from the proceedings, unless the board decides that the interest is trivial or not relevant. Such a decision should be announced in public at the first available sitting of the board. No member may use his/her position or privileges for private gain or to improperly benefit another person. Members may also not act in any way that compromises the credibility, impartiality, independence or integrity of an appeal board. If a member contravenes the code of conduct mentioned above, he/she will be guilty of misconduct.⁵⁴⁰

It is also provided that a member of an appeal board ceases to be a member when that person resigns, is no longer eligible or is removed from office. Only the MEC may remove a member from office and only on the grounds of misconduct, incapacity or incompetence. A decision to remove a member must be based on a finding of misconduct or incompetence by an investigating tribunal appointed by the MEC. Members under investigation may be suspended from office by the MEC.⁵⁴¹ The

⁵³⁶ The MPRA s 59(1)(a)-(f). The disqualification because of an offence ends five years after the imprisonment has been completed.

⁵³⁷ The MPRA s 59(3).

⁵³⁸ No specific terms are laid down in the MPRA. A member can thus be reappointed several times. Refer to the MPRA s 60.

⁵³⁹ The MPRA s 61(1)-(3).

⁵⁴⁰ Refer to the MPRA s 62(1)-(2).

⁵⁴¹ See the MPRA s 63(1)-(4).

MEC may further appoint alternative members of an appeal board. An alternative member acts as a member when a member is absent, has recused him/herself or when the filling of a vacancy on the board is pending.⁵⁴²

The chairperson on an appeal board decides where and when a board meets, but he/she must promptly convene a meeting if a majority of members of the board so request in writing, at a time and place set out in the request. When a board is hearing an appeal, it must sit in a municipality whose valuation roll is the subject of the appeal or being reviewed.⁵⁴³ If a chairperson is absent or not available, or if there is a vacancy in the office of the chairperson, then the other members of the board must elect a member with experience in the administration of justice or elect the alternative as chairperson to preside at the meeting. Meetings are open to the public, but a board may adjourn in closed session when deliberating an issue.⁵⁴⁴ An appeal board may further request a municipality whose valuation roll is under consideration to provide it with the necessary office accommodation and other administrative assistance, inclusive of staff for the board. All reasonable requests in this regard must be complied with by the municipality, which is subsequently also liable for the costs of the appeal board.⁵⁴⁵ The internal procedure of a board may be determined by the board, subject to any procedures that may be prescribed.⁵⁴⁶ A majority of members of an appeal board serving at any relevant time constitutes a quorum for a meeting, and a matter before the board is decided by a supporting vote of a majority of the members. If on any matter there is an equality of votes, then the member presiding must exercise a casting vote in addition to that person's normal vote as a member.⁵⁴⁷ It is the responsibility of the chairperson of an appeal board and of the valuer

⁵⁴² See the MPRA s 64(1)-(3).

⁵⁴³ It seems that the intention of the legislator is for the board to sit and convene within the municipal offices of the municipality concerned. See the MPRA s 65(2).

⁵⁴⁴ Read the MPRA s 55(1)-(4).

⁵⁴⁵ Refer to the MPRA s 66(1)-(2).

⁵⁴⁶ The MPRA s 67.

⁵⁴⁷ The MPRA is somewhat unclear on the aspect of decision making. There seem to be two possibilities. Since a majority (50% + 1) of members of a board forms a quorum, such a quorum must normally be present before a meeting and subsequent decision is taken. The Act s 68 determines that any matter before the board is decided by a supporting vote of a majority of the members of the board, however, and not a majority of the members present that formed a quorum. To illustrate the position, let us imagine an appeal board that consists of five members. Refer again to the Act s 58. A quorum would be three members. If the legislator intended that a majority (absolute majority) of the members of a board must support a matter before the board, then all three members must support a decision. If the intention was to refer to a supporting vote of a majority of members present that form a quorum, then only 2 (50% + 1 of the members present) would allow a

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of a municipality to ensure that that valuation roll is adjusted or added to in accordance with the decisions taken by the board.⁵⁴⁸ When an appeal board gives a decision, it may issue an order with regard to costs, as it sees just and equitable. Persons whose appeals or opposition to an appeal were in bad faith or frivolous may be ordered to compensate the municipality concerned in full or in part for costs incurred by the municipality in the appeal.⁵⁴⁹ It is also determined that the MEC may on request by an appeal board authorise the board to establish one or more committees to assist it in the performance of its duties. When appointing members of a committee, the board is not restricted to members of the appeal board. Furthermore, the board

- must determine the duties of a committee
- must appoint a chairperson and other members
- must authorise the committee to co-opt advisory members within the limits determined by the board
- may remove members
- may also determine a committee's procedure.

The board can also dissolve a committee at any time.⁵⁵⁰

Similarly to a municipal valuer, an appeal board may enter any property that is subject of an appeal and inspect the property. When entering a property, a member or assistant of the board must identify himself or herself and may be accompanied by an interpreter or other functionaries.⁵⁵¹ Members of appeal boards may require access to documents or information relevant to the appeal/review and may make extracts thereof. They can also require written or oral particulars regarding the property relevant to the appeal/review.⁵⁵² Information obtained may not be disclosed, except as authorised under the MPRA.⁵⁵³

decision. The latter would seem the more likely interpretation, since the contrary would make the provision of s 68(1) rather meaningless.

⁵⁴⁸ Refer to the MPRA s 69(1)-(3). Where an adjustment affects the amount due for rates, then s 55 must be applied.

⁵⁴⁹ The MPRA s 70(1)-(2).

⁵⁵⁰ See the MPRA s 71(1)-(5). Note also that ss 61-66(2)(b), read with the necessary changes, apply to the conditions of appointment of members of a committee who are not members of an appeal board.

⁵⁵¹ For the full details read the MPRA s 71(1)-(3). The MEC must issue all members of an appeal board an identity card with the photographs of that person for identification purposes.

⁵⁵² Refer to the MPRA s 73(a)-(c).

⁵⁵³ Read the MPRA s 74(1)(a)-(d).

In order for an appeal board to function properly, the MPRA determines that an appeal board may by notice summon a person to appear before it in order to give evidence or to produce documents specified in the summons/notice. The board may also call a person present at a meeting, whether summoned or not, to give evidence or to produce a document in that person's custody. For evidential purposes, the board may administer an oath or solemn affirmation to a person and question or have a person questioned. Documents obtained may be retained by the board for a reasonable period.⁵⁵⁴ It is further also provided that a person who is appearing before an appeal board, whether summoned or not, may at his/her own expense be assisted by a legal representative. When a person is summoned before a board, he/she is entitled to witness fees paid to state witnesses in criminal proceedings in a criminal court. Such fees are payable by the relevant municipality. It should be noted that the law regarding privilege to a witness in a criminal case applies before an appeal board.⁵⁵⁵ In the last instance, it is provided that legal proceedings by or against an appeal board may be instituted in the name of the board, and any costs awarded in any legal proceedings against such a board must be borne by the municipality concerned.⁵⁵⁶

18.5.6.11 Aspects regarding the updating of municipal valuation rolls

All applicable municipalities must regularly, but at least once a year, update its valuation roll by preparing either a supplementary valuation roll or amending its current valuation roll.⁵⁵⁷ In respect of supplementary valuations, a municipality must, whenever necessary, cause a supplementary valuation to be made in respect of all rateable property that

- was incorrectly omitted from the roll
- was included in a municipality after the last general valuation
- was subdivided or consolidated after the last general valuation of which the market value has substantially increased or decreased
- was substantially incorrectly valued during the last general valuation

⁵⁵⁴ See the MPRA s 75(1)(a)-(e).

⁵⁵⁵ For more details refer to the MPRA s 75(2)-(4).

⁵⁵⁶ It seems therefore that an appeal board is afforded legal personality, which can take legal action itself or against which legal action can be instituted. The MPRA is somewhat vague about this particular aspect. See the MPRA s 76(1)-(2).

⁵⁵⁷ The MPRA s 77(a)-(b).

- must be revealed because of other exceptional reasons.⁵⁵⁸

A municipal valuer who prepared the valuation roll may be designated for the preparation and completion of the supplementary roll. A supplementary roll takes effect on the first day of the month following the completion of the public inspection period, and it remains valid for the duration of the municipality's current valuation roll.⁵⁵⁹

Supplementary valuations must reflect the market value of properties as determined in accordance with market conditions that prevailed at the date of the valuation determined for the purposes of the municipality's last general valuation and other provisions of the MPRA. Rates applicable to a supplementary valuation roll become payable with effect from:

- the effective date of the supplementary roll
- the date on which the property was included in the municipality
- the date on which the subdivision or consolidation of the property was registered in the deeds office or
- the date on which the market value has substantially increased or decreased.⁵⁶⁰

All municipalities must regularly amend their valuation roll to reflect any changes to the particular roll. Changes to the roll in circumstances under section 78 of the MPRA may be effected only through a supplementary roll, however.⁵⁶¹

18.5.6.12 Miscellaneous matters pertaining to the new property rates legislation

The MPRA determines that, on good cause shown and on such conditions as the MEC may impose, the MEC for Local Government in a province may condone any non-compliance with a provision of the Act which requires any Act to be done within a specified period or pertaining to any Act to be done within a specified period. Any

⁵⁵⁸ See the MPRA s 78(1)(a)-(f). Note that the provisions of ch 4 Part 2 and also chs 5, 6 and 7 are applicable to the updating of valuation rolls.

⁵⁵⁹ Read the MPRA s 78(2)(a)-(b) together with s 49.

⁵⁶⁰ Refer to the MPRA s 78(3)-(4). It seems clear from the Act that not only increases in the value of property are provided for, but also decreases. When the valuation of a property is negatively impacted, eg, through fire or other natural disaster, then a property owner would be well advised to notify the relevant municipal manager of such an occurrence and request the municipal valuer to investigate the matter and to make an adjustment accordingly. It is submitted in this regard that unless an adjustment to the valuation roll by means of a supplementary roll has been made, a property owner will have to pay the rates due on that property as was valued in terms of the previous valuation. A possible refund could be applicable later when the supplementary valuation roll is in effect.

⁵⁶¹ The MPRA s 79.

non-compliance with sections 21, 31 or 32 of the Act may not be condoned.⁵⁶² The MEC must further monitor whether municipalities comply with the provisions of the Act. If municipalities fail to comply with the Act, the MEC may take any appropriate steps to ensure compliance, which steps could include a proposal to intervene in accordance with section 139 of the Constitution.⁵⁶³ Even the minister may monitor or investigate and even issue a public report on the effectiveness, consistency, uniformity and application of municipal valuations. Such an investigation may include studies of the ratio of valuations to sale prices and also other appropriate statistical measures in order to determine the accuracy of valuations.⁵⁶⁴ The minister is furthermore authorised to make regulations which are not inconsistent with the Act, and which concern:⁵⁶⁵

- (a) any matter that may be prescribed in the act;
- (b) matters that refer to the preparation, contents, adoption and enforcement of a municipal rates policy;
- (c) the manner in which rates referred to in section 21 of the MPRA must be phased in together with the criteria that municipalities must take into account;
- (d) the property register;
- (e) the form and content of any document referred to in the act, including a declaration, authorization, valuation roll, objection, appeal and notice;
- (f) the valuation and rating of public service infrastructure;
- (g) procedures to be followed in connection with appeals and reviews of decisions of municipal valuers;
- (h) aspects of condonement of non-compliance;
- (i) the giving of reasons by an appeal board;
- (j) the funding of appeal boards;
- (k) inquiries by investigating tribunals for appeal boards;
- (l) inquiries of alleged misconduct of valuers;
- (m) fees payable for information or issuing of documents;

⁵⁶² The MPRA s 80(1)-(3). The power to condone may also only be exercised within a framework, as may be prescribed by regulation by the minister.

⁵⁶³ Read the MPRA s 81(1)-(2).

⁵⁶⁴ Investigations may be undertaken in respect of one, more or all municipalities. See the MPRA s 82(1)-(3).

⁵⁶⁵ See the MPRA s 83(1)(a)-(n).

(n) any other matter in the opinion of the minister that is necessary for the effective carrying out or furtherance of the objects of the act.

Furthermore, the minister may declare by regulation a contravention of or failure to comply with any specific regulation to be an offence.⁵⁶⁶ Before regulations are promulgated, the minister must consult with OLG on the substance of those regulations and must also publish the draft regulations in the *Government Gazette* for public comment.⁵⁶⁷ It is also provided that the copyright of valuation rolls and other documents produced by municipal functionaries under the Act vests in the relevant municipality concerned.⁵⁶⁸

The MPRA determines that a person is guilty of an offence if that person:⁵⁶⁹

- (a) contravenes section 43(1)(a) or (b), 44, 62(1)(b) or (c) or section 74 of the act;
- (b) willfully obstructs, hinders or threatens a valuer or other authorized person when performing a duty or exercising a power in terms of the act;
- (c) willfully gives information in an objection in terms of section 50(1)(c) of the act or in an appeal which is false in any material aspect;
- (d) after having been summoned, fails to be present at a meeting, fails to remain present until excused or fails to produce a document specified in the summons;
- (e) after having been called under section 75 of the act, refuses to appear, answer any question, except where the answer might incriminate the person or to produce a document in the person's custody;
- (f) fails to comply with a request under section 29, 42 or 73 of the act or willfully supplies false or incorrect information in any material respect.

A valuer is guilty of an offence even if he/she is grossly negligent in the exercise of the functions of the office. For someone convicted of an offence, the penalty under the Act is the liability of imprisonment, which may not exceed two years, or a fine as may be prescribed in relevant national legislation. A person convicted of an offence in terms of section 83(2) of the Act is liable only for a fine or imprisonment not exceeding six months, however.⁵⁷⁰ Finally, it is determined that the MPRA prevails in

⁵⁶⁶ See the MPRA s 83(2). It should be noted that regulations may treat different categories of property or different categories of owner of property differently.

⁵⁶⁷ Reer to the MPRA s 84(a)-(b).

⁵⁶⁸ The MPRA s 85.

⁵⁶⁹ See the MPRA s 86(1)(a)-(f).

⁵⁷⁰ Read the MPRA s 86(1)-(4).

the event of any inconsistency between it and any other legislation regulating the levying of municipal rates.⁵⁷¹

18.5.6.13 Aspects concerning transitional arrangements and the amendment and repeal of legislation

According to the MPRA, municipal valuations and property rating conducted by a municipality in an area in terms of legislation which is repealed by the MPRA before the commencement of the Act may, despite such repeal, continue to be conducted in terms of that legislation until the date on which the valuation roll covering that particular area prepared in terms of the Act takes effect in terms of section 32(1).⁵⁷² Until a municipality prepares a valuation roll in terms of the MPRA, a municipality may continue to use a valuation roll and supplementary roll that was in force and may levy rates against property values as shown on that roll. Where valuation rolls were prepared by different predecessor municipalities, the current/new municipality may impose different rates based on the different rolls. The amounts payable on similarly situated properties should be more or less similar. The transitional requirements lapse within four years from the date of commencement of the MPRA, however.⁵⁷³ Similar to valuation rolls, a rates policy adopted before the commencement of the Act continues to be of force until the date on which the first valuation roll prepared under the Act takes effect.⁵⁷⁴ Transitional arrangements regarding section 21 applications, the liability of bodies corporate of sectional title schemes and special rating areas are also determined by the MPRA.⁵⁷⁵ Finally, the MPRA amends and repeals various pieces of national and provincial legislation. For details on such legislation, refer to the schedule annexed to the Act.⁵⁷⁶ In contrast with the levying of property taxes on privately owned land, the state is sometimes exempted from having to pay taxes to local authorities. According to the Rating of State Property Act,⁵⁷⁷

⁵⁷¹ The enforcement of so-called "old-order" legislation, which is still in existence in the various provinces, is thus subjected to the MPRA. See the MPRA s 87.

⁵⁷² See the MPRA s 88(1)-(2).

⁵⁷³ Read the MPRA s 89(2)-(3). When the old order laws lapse, then the old valuation rolls/supplementary rolls may not be used anymore.

⁵⁷⁴ See the MPRA s 90(1)-(2). Any review of such an old rates policy after the commencement of the Act must take the aims of the MPRA s 3(3) into account.

⁵⁷⁵ Refer to the MPRA ss 91, 92 and 93 respectively.

⁵⁷⁶ See the Act s 95 together with the Sch. The Act comes into operation only on a date to be determined by the president by proclamation. The MPRA s 96. It should specifically be noted that the MPRA repeals the whole of the Rating of State Property Act 79 of 1984.

⁵⁷⁷ 79 of 1984.

state property is also rateable. Exemptions are possible, however.⁵⁷⁸ This Act was repealed by the MPRA, however.

18.5.7 Fees, service charges and tariffs

Municipalities have always been very dependent on financial income derived from fees, service or user charges and various tariff obligations. All former provincial ordinances provided for such revenue arrangements. Section 10G(7) of the LGTA empowered municipalities to levy and recover levies, taxes, fees and tariffs and also prescribed the procedures for doing so. Unless repealed or contrary to the Constitution, such requirements are still applicable and enforceable. According to the new constitutional scheme, that is, section 229, municipalities are empowered to impose taxes, levies and duties apart from property rates and surcharges on fees if authorised by national legislation. Income tax, general sales tax, and value added tax are excluded, however.⁵⁷⁹

Generally speaking, a “charge” is regarded as a payment for something to be done, for example an electricity or water connection. The fee or charge is then a once-off payment. A “tariff”, on the other hand, refers to a continuing fee or charge for a service that is being rendered or for a function that is to be performed on a continuing basis. Examples of tariffs included tariffs for the supply of water or electricity, refuse removal or even public transport. In essence the purpose of fees, charges and tariffs is to recover the cost of providing such a service or to perform such a function.⁵⁸⁰ Fees, tariffs and service charges are often divided into different categories. A distinction is made between *trading services*, *necessary services* and *social services*. Trading/utility services include water and electricity services. Normally it is expected that municipalities do not make a profit on such services, as it could be oppressive to poor households. In many instances in the past profits were indeed achieved on electricity and sometimes on water services. Necessary charges or fees relate mostly to sewerage, refuse removal and associated services. *Social services* refers to services such as clinics, building control, markets, halls, libraries,

⁵⁷⁸ See the Act s 3(3).

⁵⁷⁹ The Constitution does not define what is meant by levies or taxes. Taxes must be levied and recovered according to the law, however.

⁵⁸⁰ See Craythorne (1997) 360-361. The writer mentions that sometimes the amount charged will cover the entire cost of the service or function, and sometimes the cost will amount to only a contribution of the costs. The balance will then often be subsidised from other sources such as rate

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parks and other recreational facilities. Such services are regarded as important for the growth and development of a community. They are often very expensive and are subsidised from other sources.

It is evident that user charges form an important source of municipal own revenue and that the cost recovery of such charges is essential. Many municipalities under the new legal system contain several backlogs in respect of payment for these services. In an effort to assist municipalities in meeting the capital costs of bulk connector infrastructure, national government has provided for the Consolidated Municipal Infrastructure Programme (CMIP). There is a general obligation on municipalities to develop clear tariff policies and also to ensure that poor/indigent households have access to basic services. It is also important that tariff enforcement and credit control mechanisms should be improved. In an effort to guide tariff policies, government and other stakeholders have agreed on the following guidelines:⁵⁸¹

- *Payment in proportion to the amount consumed* As far as is practically possible, consumers should pay in proportion to the number of services consumed.
- *Full payment of service costs* All households, with the exception of the indigent, should pay the full costs of the services consumed.
- *Ability to pay* Municipalities should develop a system of targeted subsidies to ensure that poor households have access to at least a minimum level of basic services.
- *Fairness* Tariff policies should be fair, in that all people should be treated equitably.
- *Transparency* Tariff policy should be transparent to all consumers and any subsidies and concessions which exist must be visible and understood by all consumers.
- *Local determination of tariff levels* Municipalities should have the flexibility to develop their own tariffs in keeping with the above principles.
- *Consistent tariff enforcement* A consistent policy for dealing with non-payment of tariffs needs to be developed. This must be targeted and enforced with sensitivity to local conditions.

charges. If full cost were to be charged, ie for public swimming pool amenities, such facilities would be beyond the financial reach of many local residents.

⁵⁸¹ See the White Paper on Local Government (1998) at 137.

- *Ensure local economies are competitive* Local tariffs must not unduly burden local business through higher tariffs, as these costs affect the sustainability and competitiveness of such businesses and firms.

18.5.8 Trading enterprises and subsidies

It has always been customary for local governments to participate in trading enterprises. Trading enterprises are associated with activities such as the provision of water, electricity, transport and fresh produce. Trading enterprises should be balanced within the overall tariffs policy to enhance income, on one hand, but not to overburden consumers/residents on the other. In the past it was expected of local authorities to generate sufficient income to carry out their activities. Little financial or other assistance was received from the other spheres of government. Municipalities were exempted from revenue sources such as income tax, stamp duties and the taxation on gifts, however. Subsidies were also received from the central and provincial authorities. The provisions of section 214 of the Constitution, which requires the equitable division of revenue raised nationally, should significantly enhance the financial support from the two higher spheres of government to the lowest spheres. Both national and provincial governments are legally obligated to support municipalities from *inter alia* a financial point of view.

18.5.9 RSC levies and intergovernmental transfers

In the recent past, Regional Service Council levies have developed into an important source of revenue for especially metropolitan and district councils. Although often controversial, these taxes are important for municipal revenue and should be retained until a suitable alternative is found. Some of the general criticism levelled against RSC levies is the costs of collection and the fact that the tax is directed on staff or labour. This is often perceived to reinforce a bias against labour-intensive enterprises and could therefore negatively impact on development. It is submitted, however, that as long as such levies are restricted to low levels and are effectively controlled, the potentially negative effects should be minimised.⁵⁸²

⁵⁸² See the Regional Services Act 109 of 1985, which provides for the payment to councils of a regional services levy by every employer and a so-called "regional establishment levy" payable by every person carrying on an enterprise in the area of a particular council. Refer also to the case of *Greater Johannesburg TMC v Eskom* 2000 (1) SA 866 (SCA). The dispute concerned the liability for regional establishment levies on the part of Eskom to the particular municipal council. According to the RSC Act s 12, every person carrying on an enterprise within a region/jurisdiction is subject to such a levy. Eskom Act 40 of 1987 s 24 exempted Eskom from payment of levies that would other-

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In light of the constitutional obligation that municipalities are entitled to an equitable share of national revenue as well as the obligation on national and provincial governments to support municipalities financially, the principle of intergovernmental transfers (IGT) has become very important. According to the White Paper on local government, three basic types of transfer were identified:⁵⁸³

- There are agency payments paid by provincial governments to municipalities for services rendered by the municipalities on behalf of the provinces.
- There are direct grants from higher spheres to municipalities to subsidise the capital costs of investment in municipal infrastructure.
- There are grants to support the operating budget of municipalities.

Municipalities must ensure that the agency payments they receive are sufficient to cover the full cost of the services which they deliver. The possibility of unfunded mandates should be guarded against. It is important that the new system of IGT should address not only the vertical division of revenue but also the horizontal division of revenue between municipalities *inter se*. The vertical division is decided via the national budgeting process. It is also important to note that the equitable share from national revenue covers only funds transferred to cover operating costs of municipalities. Capital grants are classified under so-called “additional grants”. From the horizontal divisional point of view, all municipalities must be able to provide a basic level of services and have at least an administrative infrastructure sufficient to govern its area effectively.

18.5.10 *Municipal loans and capital funds*

It was mentioned above that the Constitution allows municipalities to raise loans for capital or current expenditure.⁵⁸⁴ Such loan capacity refers to external loans such as bank overdrafts. Municipalities must be very cautious not to over-exceed their borrowing possibilities and end up having a negative credit rating, however. In order to ensure that a municipality does not fall into a trap of debts, strict requirements are set out before a loan can lawfully be obtained.⁵⁸⁵ Loans for bridging finance may be raised only during a financial year and also only to finance current expenditure in

wise have been payable to the state. Court held that the reference to “state” in the Act was to the state in all its manifestations, including local authorities such as RSC or TMC. Eskom was accordingly exempted from paying regional establishment levies.

⁵⁸³ See White Paper on Local Government (1998) at 139.

⁵⁸⁴ See the Constitution s 230.

⁵⁸⁵ See the LGTA s 10G(8) and the various provisions under the LGMFMA discussed above.

anticipation of the receipt of revenue to be collected. Apart from raising loans, municipalities can also utilise internal capital funds as a resource for funding less expensive capital purchases such as equipment and minor building works.

18.5.11 *Municipal stocks*

Another method used in the past in raising capital by municipalities was through the issuing of municipal stock. Stock refers to a fixed amount of money invested by an individual or institution. It is a form of loan. In return for the investment, a certificate is issued as evidence of ownership of a fixed amount of stock. Normally a stock certificate is transferable at a price determined by the prevailing money market. Craythorne identifies three types of stock.⁵⁸⁶ These are *bearer stock*, *inscribed stock* and *registered stock*. Transfer of stock takes place through the transfer or surrender of the stock certificates. In South Africa this method of raising money is preferred because of security offered by the stocks and also easy accounting control. Finally, there are two methods of issuing stock: one is through the so-called “fixed price” system and the other is through the “tender” system. Under the tender system municipal stock is put up for public tender, and an issue is made to the highest bidder.⁵⁸⁷

18.6 Conclusion

It is obvious to conclude that the restructuring process of local government and the various constitutional demands placed on municipalities have introduced many financial challenges. These challenges include a dramatic increase in services responsibilities, escalation in municipal salaries, higher administrative costs and often a significant reduction in experienced personnel.⁵⁸⁸ Most of these challenges have placed severe pressure on the cash flows and financial control mechanisms of all newly amalgamated municipalities.

There seems to be a strong need and indeed constitutional obligation for municipalities to restore and implement strict financial discipline and to take effective steps to recover outstanding debts and to fully utilise all local methods to generate the necessary revenue. Without sufficient revenue at their disposal, municipalities will not be able to fulfil and complete their constitutional obligations. It is further also

⁵⁸⁶ See Craythorne (1997) 364.

⁵⁸⁷ Craythorne (1997) 364-365.

⁵⁸⁸ Refer to the White Paper on Local Government (1998) at 147.

essential that municipalities are properly assisted and supported by both the national government and the provincial authorities. The success of municipal fiscal management lies in strict control and oversight, however. In this regard the higher spheres of government have important control functions to fulfil.

It is submitted that the new legislative provisions, within the basic framework of the Constitution, indeed create a legal dispensation that should allow all municipalities to enhance and secure sufficient financial revenue and thereby provide and sustain essential municipal services. Such support and financial entitlements are not unrestricted, and various measures of control and accountability over fiscal matters have been provided for. Clear and decisive provisions are also made to ensure higher-sphere involvement in municipal financial affairs and to provide for oversight and even national and provincial intervention in cases where municipal finances are inappropriately managed. The new legal framework also allows for much stronger public participation in financial affairs, which in turn should foster stronger relationships of trust and support between local residents and their respective municipal governments. However, the ultimate success of the new system lies in the way in which the new system is implemented and in the manner in which all roleplayers exercise and fulfil their distinctive legal obligations.

The principles of municipal public administration and the requirements of performance management, capacity building, accountability and public participation

19.1 Introduction

The importance of the relationship between municipalities and residents as well as between municipalities and the two higher spheres of government have been emphasised in many previous chapters of this work. These relationships have been given constitutional importance and significance under the new overall constitutional scheme. Especially since the Constitution is the supreme law of the state, all constitutional requirements dealing with the public administration and the relations between the public and government institutions must be strictly complied with. Under the previous local government system, many of these issues were not legally enforceable or were largely downplayed in mostly provincial ordinances. This position has now changed fundamentally under the new constitutional dispensation.

As a basic point of departure, the meaning of administration (ie municipal administration) refers to the overall management of the public affairs of a certain organisation.¹ On a municipal level, public administration encapsulates a special relationship between politics and administrative organs. The politicians are concerned with the uses of power, whilst the administration is concerned with translating the political decisions into practical implementation. Furthermore, the political dimension is subject to change, whereas the administration is characterised by stability and routine.

In terms of public administration, it must be remembered that the concept includes aspects such as policy, decisions, staffing matters, organising, planning and also resource allocations. The concept also differs widely from one administration to an-

¹ Craythorne (1997) 65.

other. Municipal administration is undoubtedly part of public administration in general, but it also has a more distinctive importance; for example:²

- It operates in a political field.
- It operates within the context of democratic notions of an open, responsive and accountable government institution.
- It is decentralised and, to a certain degree, self-financing.
- It is the part of government which is closest to the citizens of a particular state.

19.2 Basic aspects concerning municipal public relations

All forms of government accept in general that their actions have to be acceptable by their subjects. This realisation provides the basis for the development of a relationship of trust and support between the state and its people. In modern day governments this relationship is very important because a government is generally accountable to the people who have elected it to power. This position is particularly true for local governments. Because local authorities provide essential goods and services which affect people directly, it is acceptable that the public at large should be sensitive about the performance of both political office-bearers and administrative staff components.

In contrast to the public relations activities of private enterprises which are directed at sales and profits, public relations programmes of public institutions are usually approached from the point of view of promoting general welfare. Public institutions are mostly monopolistic enterprises with no real competitors. This position has changed somewhat under the new South African constitutional scheme as competitiveness, accountability and responsiveness in providing services and attracting investment have become familiar catch-phrases. Because of their prominent caretaker roles in society, public institutions such as municipalities are subjected to various legal requirements in respect of the exercise and fulfilment of their functions.³ It is further also an established requirement that public functionaries maintain high ethical standards. This position is so because of the important public responsibilities which municipalities must perform.

² See Craythorne (1997) 71.

³ See Cloete (1997) 152. The writer mentions that the public does not always understand the reasons for administrative red tape. There are often very good reasons for such requirements, however. The introduction of Public/Private Partnerships (PPP) has also boosted municipal competitiveness and profit targeting.

Municipal public relations are affected by every action of a political or staff representative. The activities of municipalities will always be evaluated carefully by local residents and other stakeholders. If respect is to be achieved, officials and political representatives should foster an attitude of commitment to the general public. It is thus safe to say that the state of public relations is largely dependent upon the conduct and performance of every functionary involved in public administration. Because of its importance, every municipality should appoint officials that are charged exclusively with the handling of its public relations.⁴ One of the many difficult tasks of a public relations officer is to determine public opinion and attitudes and to accommodate such opinions and attitudes. Quick and reliable information is very important here.

19.3 The constitutional requirements affecting municipal public administration

In light of the importance and responsibilities of public administration at large, the new constitutional scheme specifically entrenches certain basic values and principles that govern it. These basic values and principles are important to not only the public administration *per se*, but also the public services throughout all three spheres of government. Unless the Constitution is amended, the basic values and principles have been afforded supreme legal status and must be complied with.

19.3.1 *The basic values and principles governing public administration*

In section 195 of the Constitution, the following values and principles relevant to the overall public administration are mentioned as follows:⁵

- A high standard of professional ethics must be promoted and maintained.
- Efficient, economic and effective use of resources must be promoted.
- Public administration must be development-orientated.
- Services must be provided impartially, fairly, equitably and without bias.
- People's needs must be responded to and the public must be encouraged to participate in policy-making.
- Public administration must be accountable.
- Transparency must be fostered by providing the public with timely, accessible and accurate information.

⁴ Such personnel are usually known as "public relations officers" (PROs) and "publicity officers" (media liaison officers).

⁵ See the Constitution s 195(1)(a)-(i).

- Good human-resource management and career-development practices must be cultivated to maximise human potential.
- Public administration must be broadly representative of the South African people, with employment and personnel management practices based on ability, objectivity, fairness and the need to redress imbalances of the past to achieve broad representation.

All of the abovementioned values and principles are obligatory and must be complied with. The Constitution is clear on the fact that public administration must be governed by the democratic values and principles enshrined in the Constitution and not only those mentioned in section 195(1).⁶ Apart from the values and principles mentioned, the Constitution confirms that the principles apply to the public administration in every sphere of government, organ of state and public enterprise. Without a doubt such principles are therefore relevant to all municipalities.⁷ The Constitution further requires the enactment of national legislation which must ensure the promotion of the mentioned values and principles.⁸ It is also permitted that the national legislation envisaged above may allow for differentiation between aspects regulating public administration between different sectors, administrations or institutions. In this regard the particular nature and functions of different sectors, institutions or administration should be taken into account when the legislation regulating the public administration is enacted. Furthermore, it seems clear from the Constitution that not all aspects concerning the public administration of all administrations or sectors should be precisely the same.⁹ The national legislation envisaged in section 195 has been enacted as the Public Service Act.¹⁰ *Inter alia*, the Act provides for the broad principles on the functioning of the public service in general, thereby also including various aspects important to municipal public administration. The Act must also be read in conjunction with section 197 of the Constitution, which in essence creates a public service for the entire Republic of South Africa. According to the Constitution, there is a public service within the overall public administration. Such public service must function

⁶ See the Constitution s 195(1).

⁷ See the Constitution s 195(2)(a)-(c).

⁸ See the Constitution s 195(3).

⁹ See the Constitution s 195(4)-(6).

¹⁰ 103 of 1994 as amended by Act 86 of 1998. Note that the Act is applicable to only the national and provincial spheres of government. Municipalities currently still determine their own conditions of service and determine their own salary scales.

and be structured in terms of national legislation, and the public service must execute the lawful policies of the government of the day loyally.¹¹ The terms and conditions in the public service must also be regulated by national legislation, and public service employees are entitled to a fair pension. No employee may be favoured or prejudiced because that person supports a particular political party or cause. Finally it is the responsibility of provincial governments to manage the public service in their administrations. They may do so only within a framework of uniform norms and standards applying to the public service.¹²

It was mentioned above that municipal administrations are clearly part of the public administration at large and that the principles and requirements mentioned in the Constitution and national legislation are equally applicable to them. Apart from the national legislative requirements for all administrations, certain specific aspects have also been included in selective laws dealing specifically with local government matters. Such legislative provisions will be discussed below. Finally, it must be pointed out that the Constitution also establishes a single Public Service Commission for the Republic of South Africa. The commission must be independent and impartial and must exercise and perform its functions in the interests of the maintenance of effective and efficient public administration and a high standard of professional ethics in the public service. The commission is regulated by national legislation and therefore it also plays an important role in overseeing and controlling aspects of public service and administration within the municipal public administrative domain.¹³ The commission has various constitutionally entrenched powers and functions and also certain additional powers and functions prescribed by national legislation.¹⁴

19.3.2 Issues concerning municipal administration

In follow-up of the constitutional requirements mentioned above, the new local government legislative framework also provides for aspects relevant to local public administration. According to the Local Government: Municipal Systems Act,¹⁵ the local public administration is governed by the democratic values and principles embodied in section 195(1) of the Constitution. It is further provided that in the administering of

¹¹ See the Constitution s 197(1).

¹² Refer to the Constitution s 197(2)-(4).

¹³ See the Constitution s 196(1)-(2).

¹⁴ See the Constitution s 196(4)(a)-(g).

¹⁵ 32 of 2000.

its affairs, municipalities must strive to achieve the objects of local government as set out in section 152 of the Constitution and also comply with the duties of local governments.¹⁶ In furtherance of the developmental duties of municipalities, the Systems Act determines that, within their administrative and financial capacity, all municipalities must establish and organise their administration in a manner that would enable municipalities to comply with various administrative and financial requirements. These requirements are the following:¹⁷

- to be responsive to the needs of the local community
- to facilitate a culture of public service and accountability amongst its staff
- to be performance orientated and focused on the objects and developmental duties of local government
- to ensure that its political structures, political office bearers and managers and other staff members align their roles and responsibilities with the priorities and objectives of the municipality's integrated developmental plan
- to establish clear relationships and to facilitate co-operation, co-ordination and communication between its political structures and political office bearers and its administration; and between its political structures, political office bearers and administration and the local community
- to organise its political structures, political office bearers and administration in a flexible way in order to respond to the changing priorities and circumstances of the municipality
- to perform its functions through operationally effective and appropriate administrative units and mechanisms, including departments and other functional or business units and also, when necessary, to perform such functions on a decentralised basis
- to assign clear responsibilities for the management and co-ordination of the administrative units and mechanisms
- to hold the municipal manager accountable for the overall performance of the administration
- to maximise efficiency of communication and decision-making within the administration

¹⁶ See the Systems Act s 50(1)-(2).

¹⁷ See the Systems Act s 51(a)-(m).

- to delegate responsibility to the most effective level within the administration
- to involve staff in management decisions as far as is practicable
- to provide an equitable, fair, open and non-discriminatory working environment.

The requirements mentioned above are subject to any applicable labour legislation, however. Applicable labour legislation will prevail if any inconsistencies arise.¹⁸ It seems that the intention of the legislature was to allow municipalities considerable leeway in order to create an effective municipal administration, but not to do so at the expense of established and recognised labour interests.

19.4 Principles of municipal accountability and public participation

It is an historical fact that to a large extent community participation and municipal accountability were neglected under the former local government dispensation. One of the core elements of change was allowing people to have a say in the decisions that affected their lives. Participation and accountability of representatives are therefore not new concepts in South African public life. Under the new dispensation these concepts have been afforded significant recognition. The supreme law of the state now recognises that participation and accountability are core and crucial principles for ensuring sustainable, democratic and developmental local government. According to the founding provisions and the objectives of local government, the aim of the new constitutional dispensation is to establish a democratic government founded *inter alia* on the values of accountability, responsiveness and openness. These sentiments are echoed in the objectives of local government, which affirms the aim of providing democratic and accountable local governments for local communities and encouraging their involvement in local government matters.¹⁹ With this new constitutional mandate, the principles of participation and accountability are central to the new local government dispensation and the final transformation of the previous system.

The process of ensuring participation and accountability in local government represents major challenges for all municipalities. The transition to the new system was long and difficult, and many adaptations were required in order to accommodate new structures and processes. Central to the success of establishing a new system has been the participation by citizens and the accountability of those in positions of

¹⁸ See the Systems Act s 52.

¹⁹ See the Constitution ss 1 and 152.

power. There are many shortcomings in the new system, however, and constant development of participation and accountability is required.

19.4.1 Participation, communication and partnerships

The essence of the concept of participation is giving people, and more specifically local residents, a real say in decisions that affect their lives. In order to take part in such decision-making processes, people must have access to decision-making structures in order to make their voices heard. Real participation strengthens the legitimacy of municipal decision making. South African local governments face various challenges to ensure participation, however. Many members of society do not have the opportunities that others do to express themselves. The lack of resources and education often excludes people from participatory processes. There are two key ways in which participation can be facilitated. They are

- to improve and maintain existing channels of communication
- to form new and strong partnerships between municipalities and local stakeholders.

19.4.2 Channels of communication

It is a fact that in systems where there are open channels of communication meaningful participation usually occurs. The following different channels of communication should enhance participation between citizens and municipalities.²⁰

- *As voters* One of the commonly known and important ways through which citizens can voice their opinions in terms of governmental decision making is through the process of voting. Every adult South African citizen has the right to vote and to take part in elections for any legislative body established in terms of the Constitution.²¹ This constitutionally protected right is important not only to ensure a democratic society but also to allow the voters to have a direct say in the choice of their political leaders and their policies. As with all government structures, municipalities have an obligation to make voters aware of their right to vote and to motivate them to exercise such right.
- *As consumers of services* Most people have direct contact with their municipalities through the use of and payment for municipal services. Through this channel

²⁰ See LGIS no 2 "Participation and Accountability" (1999) at 3-8.

²¹ Read the Constitution s 19(3)(a).

of regular contact, many aspects of municipal decision making can be communicated.

- *As an organised interest group* People often organise themselves in different interest groups. Such groups include political parties, NGOs and a range of Community Based Organisations (CBOs) such as ratepayers associations, church groups etc. Business people also organise themselves into groups that look after their interests and the interests of the region. A local chamber of commerce is a good example of a business organisation that could have an important influence with the local authority and which could serve as an acknowledged and influential communication instrument.
- *Through specialised structures* Communication can also be significantly enhanced through specialised local structures. A ward committee is such a structure and could play a very important intermediary between local residents and their local municipality. Ward committees are best suited to detecting local problems and to communicating such problems quickly and effectively. Apart from ward committees, which interact with the specific ward representative, residents can also communicate and participate with their local municipality through their traditional leaders or other community organisations. The existence of traditional leadership in many regions in South Africa and its role and involvement with local municipalities should also provide a powerful mechanism for participating and communicating with their municipal structures.²² It is essential that municipalities should ensure that the channels mentioned above are kept open and effective. To this end the new local government legislative framework provides specifically for a chapter on community participation.²³ A further example of a specialised structure is the existence of organised labour. Organised labour should also be consulted by municipalities when issues are considered that could have an impact on them. In the case of *SAMWU v City of Cape Town and Others*²⁴ the Supreme Court of Appeal stated that the provisions of sections 16-21 of the Systems Act foster

²² Municipalities can also ensure participation through the establishment of internal municipal committees, eg, an advisory committee. Such a committee is specifically formed to address the need for effective communication with the public and can act as a vital link between the municipality and its local community.

²³ See the Systems Act ch 4, which is discussed later in this ch.

²⁴ 2004 (1) SA 548 (SCA).

community participation in municipal decision-making processes. Such participation could include organised labour.²⁵

19.4.3 Participation through partnerships

When channels of communication are open and effective, conditions are conducive for partnerships to be formed. Examples of these are partnerships between the municipality and the police in combating crime, and between local business enterprises to alleviate social upliftment. The new legal framework provides specifically for such programmes and partnerships.²⁶

19.4.4 The new legislative provisions regarding community participation

Under the new local government legislative framework, specific provision has been made for ensuring and protecting the participation of local communities. Chapter 4 of the Municipal Systems Act features various legal obligations to which municipalities must comply. From the start the Act determines that municipalities develop a culture of municipal governance that complements formal representative government with a system of participatory governance. In an effort to achieve and develop such a culture, municipalities must encourage and create conditions for the local community to participate in the affairs of the municipality. Participation should include participation in:

- the preparation, implementation and review of the municipal integrated development plan
- the establishment, implementation and review of the performance management system
- the monitoring and review of performance in general, including outcomes and impact of performance
- the preparation of the municipal budget
- strategic decisions relating to the provision of municipal services.²⁷

Municipalities must further contribute to building the capacity of the local community in order to enable it to participate, and to enable councillors and staff members to foster community participation. Municipal resources and funds that are allocated

²⁵ Refer to the *SAMVU* case *supra* fn 24 at 551-555.

²⁶ See the Systems Act ch 4.

²⁷ Refer to the Systems Act s 16(1)(a)(i)-(v).

annually from the municipal budget should be provided in order to achieve the mentioned participatory objectives.²⁸

Specific mechanisms, processes and procedures for community participation have also been provided for. The Systems Act determines that participation by the local community in the affairs of the municipality must take place through various mechanisms.²⁹ All municipalities must establish appropriate mechanisms, processes or procedures to enable the local community to participate in the affairs of the municipality. In this respect, municipalities must provide for

- the receipt, processing and consideration of petitions and complaints lodged by members of the local community
- notification and public comment procedures
- public meetings and hearings by the municipal council, other political structures and political office bearers, when appropriate
- consultative sessions with locally recognised community organisations and where appropriate, traditional authorities
- report-back mechanisms to the local community.³⁰

When a municipality establishes mechanisms or processes of participation, it must take into account the special needs of people who cannot read or write, people who have disabilities, women and various disadvantaged groups. A municipal council may also establish one or more advisory committees to advise the council on any matter within the council's competence.³¹

A further important provision is that municipalities must communicate to their relevant communities information concerning *inter alia* the available mechanisms to encourage and facilitate community participation, the matters on which participation is encouraged and also the rights and duties of members of the local community.

²⁸ See the Systems Act s 16(1)(b)-(c). It should be pointed out that the mechanisms to encourage participation must not be interpreted as permitting interference with a municipal council's rights to govern and to exercise executive and legislative authority. In instances where participatory schemes would interfere with municipal administration or the effective provision of services, such schemes must be overruled in favour of a municipality's right to govern and to exercise its functions and obligations. See the Act s 16(2).

²⁹ See the Systems Act s 17(1)(a)-(e). It is envisaged that participation must take place through (a) political structures; (b) other mechanisms, processes and procedures provided for in terms of the Systems Act; (c) other appropriate mechanisms, processes and procedures established by the municipality; (d) councillors; and (e) generally applying the provisions for participation as provided for in the Systems Act.

³⁰ See the Systems Act s 17(2)(a)-(e).

³¹ See the Systems Act s 17(3)(a)-(d) and s 17(4).

When such information is being communicated by a municipality to its local community, it is obligatory for the municipality to take into account the language preferences and usage in the municipality and the special needs of people who cannot read or write.³² Participation is also enhanced through giving notice to the public of municipal council meetings and giving them admission to these. It is now required by law that the municipal manager of a municipality give notice to the public of the time, date and venue of every ordinary meeting of the council and also special or urgent meetings, except when time constraints make such notice impossible.³³ As was stated elsewhere in this work, a municipal council must conduct its business in an open manner and may close its sittings only when it is reasonable to do so.³⁴ The constitutional requirement is reiterated in the new legislative framework. Meetings of a municipal council and of its committees are open to the public, including the media, and neither the public nor the media may be excluded from council or committee meetings except when:

- it is reasonable to do so because of the nature of the business being transacted *and*
- a by-law or resolution of the council specifying the circumstances in which the council/committee may close a meeting, authorises the council or committee to close the meeting to the public.³⁵ The public or media, may not be excluded, from a council or committee meeting when any of the following matters are being considered or being voted on:³⁶
 - (a) a draft by-law tabled in council
 - (b) a budget tabled in council
 - (c) the municipality's draft IDP or amendments thereto, tabled in council
 - (d) the municipality's draft performance management system or amendments, tabled in council
 - (e) the decision to enter into a service delivery agreement in terms of section 76

³² Refer to the Systems Act s 18(1)-(2).

³³ See the Systems Act s 19(a)-(b). The manner in which the notice is to be given must be determined by the municipal council.

³⁴ See the Constitution s 160(7).

³⁵ See the Systems Act s 20(1)(a)-(b). Note that decisions by local governments are taken via specific resolutions or via the adoption of a by-law. Resolutions can however be *more easily amended* or changed than by-laws.

³⁶ See the Systems Act s 20(2)(a)-(f).

- (f) any other matter prescribed by regulation.

However, it is interesting to note that, subject to reasonability and the nature of the business being transacted, an executive committee and a mayoral committee may close any or all of its meetings to the public and media.³⁷ Finally, a municipal council, within its financial and administrative capacity, must provide space for the public in the chambers where the council or committees meet, and it may also take reasonable steps to regulate public access to and public conduct at such meetings.³⁸

The new local government legislative framework also determines specific requirements in respect of communications to the local community. When a municipality needs to notify the community of anything through the media, it must do so in the local newspaper(s) of the area, in newspapers circulating in the area and in newspapers determined by the council to be newspapers of record; alternatively, notices can be sent by radio broadcasts covering the area of the municipality.³⁹ Any notification must be in the official language(s) determined by the council, with consideration of the language preference and usage within its area. Notices must also be displayed at the municipal offices. When a local community is invited to submit comments to the council, the invitation notice must state that municipal staff members will assist persons who cannot write. Similar provisions are set when members of the public are required to fill in forms. Persons who cannot read or write must be assisted.⁴⁰

Specific provisions regarding the publicity of documents have also been included. According to the Systems Act, all documents that must be made public by a municipality in terms of a requirement of the Act, the Municipal Finance Management Act or any other applicable legislation must be conveyed to the local community by displaying the documents at the municipality's head and satellite offices and libraries, on the municipality's official website if available and by notifying the local community of the place and address where detailed particulars concerning the documents can be obtained.⁴¹ Each municipality is also obligated to establish its own official website if it decides that it is affordable, and place on such website all information required under

³⁷ The Systems Act s 20(3).

³⁸ The Systems Act s 20(4)(a)-(b).

³⁹ See the Systems Act s 21(1)(a)-(c).

⁴⁰ See the Systems Act s 21(2)-(5).

⁴¹ See s 21A of the Systems Act as inserted by Act 44 of 2003 s 5. If appropriate, a notification mentioned above must invite the local community to submit written comments or representations to the municipality in respect of the relevant documents.

the Systems Act and the Municipal Finance Management Act. If no website is established, all relevant information should be displayed on an organised local government website sponsored or facilitated by the National Treasury. It is the overall responsibility of the municipal manager to ensure maintenance and regular updating of the electronic information of a municipality.⁴²

Under the new legislative framework, the minister of local government is also authorised to make regulations or issue guidelines on various aspects concerning public participation in local municipal affairs. The minister should take into account whether municipalities have the capacity to fulfil extra regulatory or guiding requirements, however.⁴³

19.4.5 Local municipal accountability

It was explained above that accountability is one of the founding values of the new South African constitutional state and is applicable to all spheres of government including the local government sphere. In essence, accountability refers to the need to explain or to defend certain actions or conduct. Accountability is needed to ensure that people in positions of power can be held accountable and responsible for their actions and conduct. Accountability therefore plays an important role in ensuring stability and acceptance of a particular democratic system. It ensures appropriate checks and balances for local residents with regard to their elective representatives. Accountability means not only taking responsibility, but also ensuring liability in certain instances. See, for example, the case of *Umzinto North Town Board v Moodley*.⁴⁴ In this case a duly appointed town treasurer, purporting to act under delegated authority, invested municipal funds contrary to the Local Authorities Ordinance⁴⁵. The town treasurer/defendant argued that he was exempt from liability under the Ordinance. However, the court held *inter alia* that the defendant bore the onus of proving that he was entitled to an exemption, that he acted wilfully and knowingly that his investment decision was not covered by the ordinance and that his conduct

⁴² Read s 21B of the Systems Act as inserted by Act 44 of 2003 s 5.

⁴³ For more details refer to the Systems Act s 22(1)-(4). Note the difference between the words “responsible” and “accountable”. Responsibility refers to the fulfilling of a duty, whilst accountability also includes the obligation to provide answers for specific actions/conduct. See also the LG: Municipal Planning and Performance Management Regulations published under GNR 796 in GG 22605 of 24 August 2001. Item 15 of the regulations deals with community participation in respect of IDP and performance management.

⁴⁴ 1996 (1) SA 539 (D).

⁴⁵ Ordinance 25 of 1974 (N).

was not excused by the ordinance. He was thus liable for the damage caused by his actions.⁴⁶ All three components of a municipality must be accountable in municipal matters.⁴⁷ There seems to be a stronger awareness of the importance of accountability and our courts should take bold action if accountability is not assured.⁴⁸ A system which encourages participation also deepens local democracy, as citizens feel more confident about participating when they know that their inputs count and that those responsible can be held accountable. Accountability in local government further ensures that the actions of the council also reflect the aspirations of the relevant community.

19.4.6 Establishing paths of accountability

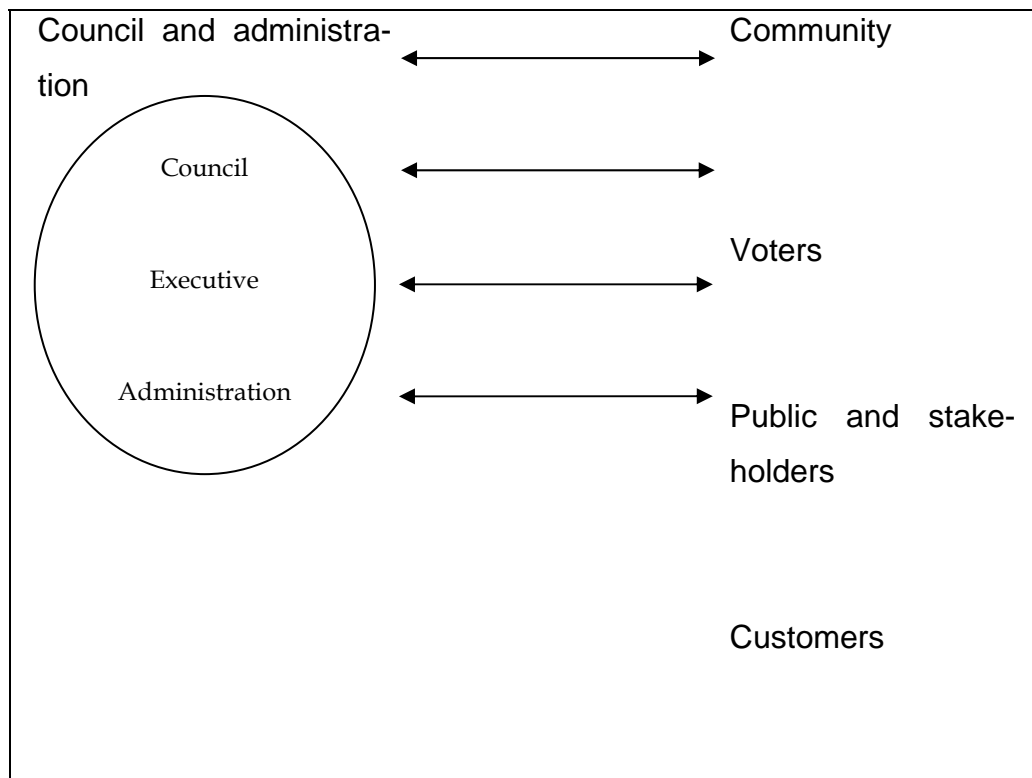
In view of the importance of local accountability, it is essential for all local governments to establish all possible paths/methods to enhance and assure a truly accountable government. There are therefore various paths of accountability, some within the municipality itself and others between the municipality and the particular local community. The following diagram provides an overview of the various paths.⁴⁹

⁴⁶ See the *Umzinto* case *supra* fn 44 at 543-545.

⁴⁷ The three components are the political office bearers, the municipal staff members and, to a lesser extent, the local community members.

⁴⁸ See in this regard the unreported case of *LR Brink and G Nieuwoudt v Die Speaker van die Munisipale Raad van Nala Plaaslike Munisipaliteit en een ander*, Free State High Court, December 10 2001 under case no 2125/2001. The case concerned mainly the suspension of two councillors from the municipal council. The court found on the facts that the grounds for suspension were frivolous and devoid of the rules of natural justice. The court held that the actions of certain councillors were so unreasonable and tainted by racism and maliciousness that it would be unfair to apply ratepayers' money to funding the action and that the costs of the matters should be paid by the relevant councillors out of their own pockets. The Constitution demands rational decision making, openness and fairness. Such features are essential to legitimacy, public confidence and acceptance of any administration. According to the Constitution, and more particularly s 152, municipal governments must be accountable governments. It is submitted by some legal experts that accountability can now be seen to extend further than the administrative organ itself and, in some extreme cases, can even mean personal accountability of those individuals who collectively make up the particular organ. See also Barrie G "Caveat town councillors" *Without Prejudice* (2001) 8. For a similar example of collective accountability, also refer to the Constitution ss 80(4) and 122(4), which allows the Constitutional Court to order unsuccessful applicants of the National Assembly or a provincial legislature to pay the legal costs of an application under the sections.

⁴⁹ Diagram taken from LGIS no 2 "Participation and Accountability" (1999) at 10.



As was mentioned above, a municipality is accountable to both institutions inside the municipality and to the public and other stakeholders outside the municipality. On the external level, municipalities are accountable to the public which they serve. External accountability manifests in different ways. There is, for example, the accountability of a ward councillor to the ward inhabitants. If the population of a ward is not satisfied with such a councillor, they should vote the person out of office in the next election. Non-ward councillors are also held accountable through pressure on the relevant political party that they represent. According to the new local government system, all councils must put an integrated development plan in place, which plan is linked with the five-year term of office of councillors. Councillors can thus be held accountable in respect of their performance relative to such an IDP. It is not only the political office-bearers that are accountable to the public, however; the municipal administration is also accountable. It must be emphasised that the relationship between the administration of a municipality and its local public is very important. Quality and professional service fosters public support and participation.⁵⁰ It is ultimately the

⁵⁰ Public accountability of municipal administrative staff has always been somewhat problematic, but in many municipalities it seems to have taken a turn for the worse. Both national and provincial governments have recognised the need for improvement in such regard. The *Batho Pele* (people first) programme is but one new initiative, which aims to ensure accountability through im-

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responsibility of each municipality to ensure that it has implemented effective mechanisms and procedures to ensure that accountability is achieved. It should further be pointed out that organised labour is also accountable to the broader community. Unions have a duty to encourage their members to serve their communities. Ultimately what is needed is a balance between the needs and aspirations of workers and the needs of the community towards affordable and accessible services.⁵¹

Accountability must also be provided for within a municipal administration. In such instances various forms of accountability can be distinguished. Firstly, there should be strong accountability between the executive authority and the municipal council. Under new policy directives and emerging legislation, the role of executive structures within the council has been enhanced. The introduction of a speaker particularly enhanced executive accountability to the council and public.⁵² Apart from being accountable to the executive authority, the council and the administration are accountable to one another. The administration has to answer to the council's political leaders, but the leader must support the administration in doing its work. On this point it should be noted that the new developmental nature of local government, with its greater emphasis on participation and accountability, has resulted in many changes in the way in which municipalities function.⁵³ Accountability is also required between the municipality as employer and organised labour. Various strategies should be developed to ensure that workers have a say in the way in which a municipality is to function. Finally, municipalities are also accountable to the other spheres of government, which are reciprocally accountable to them. For example, municipalities are required to implement national and provincial development programmes, but both national and provincial governments have a supporting, co-ordinating and monitoring role with regard to municipalities. All in all, the three

proved customer management and service provision. See LGIS no 2 "Participation and Accountability" (1999) at 11.

⁵¹ According to the White Paper on Local Government, labourer' interests should not stand in the way of transformation or delivery objectives. It is envisaged that the new South African Local Government Bargaining Council must play a critical role in enhancing positive partnerships between labour, management, the council and, finally, the relevant local community.

⁵² Refer to all the special functions that the speaker must perform and oversee. The speaker functions as a person who is charged with ensuring that the council and its structures are accountable for the way in which they function.

⁵³ The enforcement of party political idealism within a particular administration often does not encourage co-operation and can be very destructive. See LGIS no 2 "Participation and Accountability" (1999) at 14.

spheres of government have an overarching constitutional accountability to the new constitutional model and to the nation at large. Such accountability is founded on the Constitution itself, as it requires a system of democratic government founded on *inter alia* the values of accountability, responsiveness and openness.⁵⁴

In an effort to ensure that accountability is achieved, many new initiatives have been implemented. It is submitted that these initiatives should go a long way towards enhancing and achieving accountability. Some of the new initiatives are summarised briefly as follows:⁵⁵

- *Codes of conduct* Codes of conduct have been introduced for councillors, traditional leaders and officials. Such codes should ensure that those individuals act in the interest of the communities that they serve and that they are accountable for their actions.
- *Full-time appointed councillors* Full-time councillors will have more time to fulfil their functions, which should improve effectiveness and accountability.
- *New structures and functionaries* Under the new legislative system, new and enhanced structures and functionaries such as the office of the executive mayor and the new municipal manager have been created. These structures and functionaries have specifically allocated powers, responsibilities and functions and should also play an important role in ensuring municipal compliance to all its duties and objectives.
- *Performance management* Under the new system, municipal performance is measured against key performance indicators (KPI). The KPI should be set up in consultation with the public and other stakeholders and should encourage participation and accountability through regular monitoring.
- *Public rights and responsibilities* Residents in particular municipal jurisdictions have both rights and obligations. Such a system, which requires a balanced approach, should also enhance municipal accountability and effectiveness.

19.4.7 Developing programmes for participation

It was mentioned above, that all municipalities are now legally obliged to develop systems of public participation. Such development requires different phases. In the first phase, municipalities should build up a relationship with all the relevant stake-

⁵⁴ Refer to the Constitution the Preamble and s 1(d).

⁵⁵ Refer to LGIS no 2 "Participation and Accountability" (1999) at 12.

holders in their communities and develop a shared vision for the area as a whole. All interest groups should be involved. This process can be initiated through various strategies such as publicity days and local media coverage. Care should be taken not to marginalise groups within communities. People must also see that the municipal initiative is genuine and that serious consideration is given to their involvement. The second phase should involve the internal restructuring of municipal administrations. Existing staff members and councillors should change their attitudes toward public participation and their own accountability. Once a new relationship has been established the new system of interaction and participation should be maintained.

From the discussion above it is clear that the new local government system is significantly different from the one that existed prior to the new constitutional dispensation. Municipalities are now constitutionally obliged to provide democratic and accountable governance for all local communities. New laws provide the basis for making the new system a reality. The key to the success lies in the capacity and willingness of all stakeholders to take the processes forward, however.

19.5 Aspects concerning municipal performance management and capacity building

The new legislative framework for local government has also established new demands on the performance of municipal staff members to ensure that the objectives of local government are met. After the transformation process had been initiated, municipal administrations were faced with various new challenges and demands: municipal jurisdictions were enlarged, many service backlogs became evident, a new constitutional vision and place for local governments was created, new boundaries were drawn and finally a new legal framework for local governments was initiated. Special directives and assistance to municipal administrations are therefore essential in order to ensure a more efficient, customer-orientated and developmentally creative local government dispensation. In order to create such a system, proper performance management within all municipal administrations is generally regarded as a prerequisite; performance management is seen as a strategic tool that can encourage new attitudes, skills and competencies within the new local government dispensation.

In essence, performance management can be summarised as a process whereby municipalities seek to improve and monitor their functioning and accountability on an ongoing basis. Performance is then regularly assessed to determine whether plans

have been implemented, resources are being used effectively and whether the municipality is fulfilling its duties and responsibilities. If municipal performance management is implemented correctly, it should enable municipalities to deliver quality services in a cost-effective, efficient and accountable manner. In light of the fact that performance management is a new concept for local administrations, there is no uniform or general model available which municipalities can implement with guaranteed success. An effective and efficient performance management system must be developed to meet the unique circumstances that exist in modern local governments in South Africa.⁵⁶

The previous local government dispensation never provided properly for a comprehensive performance management system. Consumers or the public at large never had the opportunity to measure the effectiveness of municipal service delivery and quality of services. Under the new constitutional requirements local governments are obliged to meet the basic needs of citizens, and especially provincial governments are tasked with monitoring the performance, capacity and effectiveness of municipalities within their respective jurisdictions. In follow-up on the constitutional provisions, the new legislative framework for local governments provides specifically for the enhancing of municipal performance management.⁵⁷ The need for a general performance management system for all municipal governments was already envisaged in the White Paper on Local Government. The White Paper confirmed that the aim of a new national performance management system is to:⁵⁸

⁵⁶ Under the new constitutional system, various systems have been proposed to establish an effective performance management system. One such proposal was the *Batho Pele* (people first) vision for managing performance in the broader public sector. The *Batho Pele* proposal is aimed at delivering the best service to the public. The proposal consisted of eight service delivery principles (ie consultation, service standards, access, courtesy, information, openness and transparency, redress and value for money). *Batho Pele* also aims at constantly improving the quality of services through the implementation of an eight-step process. Such steps, which could serve as an important guide for municipalities that embark on performance improvement programmes, are: identification of the customer; establishing customer needs and priorities; determining the current service baseline; identifying the improvement gap; setting service standards; gearing up for delivery; announcing service standards and finally monitoring delivery against standards and publishing the results. These principles should form the basis for any new local government performance management system. The overall aim is to make municipalities efficient, customer-orientated, developmentally creative institutions that enable citizens to obtain better service delivery. See LGIS no 2 "Performance Management" (1999) at 4-5.

⁵⁷ See the Local Government: Municipal Systems Act ch 6. The aim of the new legal framework is to: define goals and priorities; establish objectives, set indicators for performance, measure performance; review and adjust service delivery mechanism and finally to report on the progress made.

⁵⁸ Refer to the White Paper on Local Government (1998) at 51-52.

- assess the overall state of local government
- monitor the effectiveness of development and delivery strategies of municipalities and ensure that scarce resources are utilised efficiently
- provide early warning signals
- allow for performance comparison between municipalities across the country
- identify successful approaches or best practises
- provide a national set of performance indicators.

The envisaged system is not aimed at imposing additional burdens on municipalities but rather at seeking a change in the way in which municipalities perform and fulfil their duties and responsibilities.

19.5.1 The new legislative requirements regarding municipal performance management

As was envisaged in the White Paper on Local Government, national legislation under the new local government dispensation specifically determines various aspects regarding municipal performance management. All municipalities are now legally obligated to establish and develop performance management systems (PMS) and to review such systems. The new legal requirements relevant to municipal performance management are briefly as follows:

- *The establishment and development of performance management systems* Each municipality established under the new local government dispensation must establish a performance management system that is commensurate with its resources, that is best suited to its circumstances and is in line with the priorities, objectives, indicators and targets contained in its integrated development plan. Municipalities must further promote a culture of performance management among their political structures, office bearers, councillors and municipal administrations. They must also ensure that their affairs are administered in an economical, effective, efficient and accountable manner.⁵⁹ Specific responsibility has been placed on the executive committee or executive mayor, whichever is applicable, or a committee of councillors appointed by the municipal council in the absence of an executive committee or executive mayor,

⁵⁹ See the Systems Act s 38(a)-(c).

- (a) to manage the development of a municipality's performance management system
- (b) to assign certain responsibilities of the system to the municipal manager
- (c) to submit the proposed system to the municipal council for adoption.⁶⁰

All municipalities must further establish mechanisms to monitor and review their performance management system.⁶¹

- *The core components and community involvement in municipal performance management systems* Every performance management system is required to include various core components. Accordingly, in terms of its performance management system and any other regulations and guidelines that may be prescribed, every municipality must incorporate and provide for the following.⁶²

- (a) setting appropriate key performance indicators (KPIs) as a yardstick for measuring municipal performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its IDP
- (b) setting measurable performance targets for each of the development priorities and objectives
- (c) monitoring performance and measuring and reviewing performance at least once a year against the development priorities and KPIs
- (d) taking steps to improve performance where targets have not been met
- (e) establishing a process of regular reporting to the council, political structures, office bearers, staff, the public and appropriate organs of state.⁶³

It is further also obligatory for a municipality to involve the local community in the development, implementation and review of the municipality's PMS and also to allow the community to participate in the setting of appropriate key performance indicators and performance targets.⁶⁴

⁶⁰ Refer to the Systems Act s 39(a)-(c).

⁶¹ The new legal framework does not provide guidelines on what mechanisms should be employed. It seems that if it is left to each municipal council to decide on what mechanisms to employ to monitor and review performance. See the Systems Act s 40.

⁶² See the Systems Act s 41(1)(a)-(e).

⁶³ In this regard, appropriate organs of state should include provincial governments which are tasked to oversee and monitor municipal performance. Ss 41(2) requires the PMS applied by a municipality to be so devised that it could serve as an early warning indicator of under-performance.

⁶⁴ See the Systems Act s 42. This section entrenches for the first time real and constructive public participation in respect of municipal performance control and oversight. It is submitted that

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- *The setting of key performance indicators and the audit of performance measurements* Under the new legal framework for local government, after consultation with the MEC for local government and organised local government nationally, the minister for local government may prescribe by regulation general key performance indicators that are appropriate and that can be applied to local government generally. The minister may also review and adjust those KPIs when necessary.⁶⁵ All municipalities are further required, in a manner determined by their council, to make known to the general public, both internally and externally, which KPI and performance targets are set by the municipality for purposes of its PMS. The results of such a PMS and performance measurements must be audited as part of the municipality's internal auditing processes and also annually by the auditor-general.⁶⁶
- *Requirements regarding reports on the PMS and the making of regulations and guidelines* Apart from the establishment of a municipal performance management system, each municipality must prepare for each financial year an annual report consisting of *inter alia* a performance report. Such a performance report should reflect:
 - (a) the performance of the municipality and each external service provider during that financial year
 - (b) a comparison of the performances with the targets set for them and also the performances in the previous financial year
 - (c) measures taken to improve performance.⁶⁷

It should be noted that an annual performance report must form part of a municipality's annual report as is determined in chapter 12 of the Municipal Finance Management Act.⁶⁸

Apart from the reporting responsibility on the municipal manager, the newly enacted legislative requirements also place a similar responsibility on the MEC and the minister concerned. In this regard, the MEC for local government in a province is obliged

this enhancement of public participation would significantly contribute to more active public involvement in municipal affairs.

⁶⁵ See the Systems Act s 43(1)(a)-(b). General KPIs must be included in a municipal PMS where applicable. See s 43(2).

⁶⁶ Refer to the Systems Act ss 44 and 45 respectively.

⁶⁷ Read s 46(1)(a)-(c) of the Systems Act as substituted by Act 44 of 2003 s 6.

⁶⁸ See s 46(2) of the Systems Act as amended.

annually to compile and submit to the provincial legislature and the national minister responsible for local government a consolidated report on the performance of municipalities in that province. The consolidated report must identify all municipalities that have underperformed during the year, as well as the proposed remedial action to be taken. The report must then be published in the *Provincial Gazette*.⁶⁹ Finally, the minister responsible for local government must annually compile and submit to parliament and the nine MECs for local government in the provinces a consolidated report of local government performance in general, in terms of general key performance indicators. Such a report must be published in the *National Gazette*.⁷⁰

In confirmation of the fact that the new legislative requirements are not a complete legal system and in order to cater for the effectiveness of the system, the national minister is permitted to make regulations or to issue guidelines to provide or regulate certain issues. These are:⁷¹

- incentives to ensure municipalities establish PMSs within a prescribed period and comply to the Act
- the setting of KPIs by a municipality with regard to its development objectives
- the identification of appropriate general KPIs that can be applied to municipalities generally
- the regular review by a municipality of its KPIs
- the setting of a framework for performance targets by municipalities consistent with their development priorities, objectives and strategies set out in their IDPs
- mechanisms, systems and processes for the monitoring and measurement of performance by a municipality with regard to its development objectives
- the internal auditing of performance measurements
- the assessment of those performance measurements by a municipality;
- the assessment of progress by a municipality with the implementation of its IDP
- the improvement of performance
- any other matter that may facilitate the implementation by municipalities of an effective and efficient PMS or the application of chapter 6 of the Systems Act.

⁶⁹ See the Systems Act s 47(1)-(2). The MEC is also tasked to submit a copy of the report to the NCoP S 47(3) of the Act.

⁷⁰ See the Systems Act s 48.

⁷¹ See the Systems Act s 49(1)(a)-(k).

It is clear that the legislator's intention was to give the minister a wide authority to make regulations or to issue guidelines. When the minister makes regulations or issues guidelines he/she must take the capacity of municipalities into account and he/she must differentiate between different kinds of municipality.⁷²

19.5.2 *Creating and maintaining an effective system of municipal performance management*

With reference to the abovementioned legislative requirements in relation to municipal performance management, two key elements seem to be significant. At first, each municipality will have to identify and prioritise those areas where performance improvement is most required. Such areas will include both external developmental priorities and internal transformation necessities. National government should assist municipalities by identifying common performance areas that are applicable to all municipalities, such as access to basic services such as water, sanitation, electricity and housing. Through national minimum standards, municipalities will be guided when defining their own goals within their unique circumstances and will consolidate existing fragmented approaches to services. The second key element is performance assessment. An objective performance assessment is crucial for the creation and maintenance of an economic, efficient and effective local government performance management system.⁷³

Apart from the two key elements of an effective and efficient PMS, all performance management systems should contain six core elements. Each element is important to make the system work, and are discussed briefly as follows:

- *Performance measurement* Performance measurement requires a relatively objective framework for assessing performance. Measurement is achieved by setting

⁷² Refer to the Systems Act s 49(2)-(4). The minister is also permitted to phase in some or all of the applications of the provisions of the chapter on performance management, which provisions place a financial or administrative burden on municipalities.

⁷³ To illustrate the functioning of such an objective performance assessment system, imagine the following example: Two municipalities, A and B, with similar budgets, responsibilities and staff both decide to undertake similar-sized housing development projects. How would their respective performance with reference to the project be assessed? It is submitted that the first step would be to assess the economic factors of the project. Such measures look at the cost of resources. If one municipality spent more on materials, such a position would be one indication of performance. Cost measures alone can be misleading, as poorer quality material are cheaper. Quality is thus also important. The second phase of assessment should evaluate quantity and quality in relation to resources used. Finally the effectiveness should be evaluated. It is important to assess what effective contribution to the overall developmental objectives of a municipality has been achieved through the project. See also LGIS no 2 "Performance Management" (1999) at 11.

performance indicators and linking them to performance targets. Performance indicators indicate how performance will be measured; that is, the number of households to receive water connections. Performance targets again refer to the result to be achieved within a given timeframe (eg 5000 connections by yearend 2005). Performance indicators can be determined only once a municipality has identified the key objectives for development in its area and with the municipality's overall developmental goals and priorities in mind. Many municipalities have set various performance indicators through their development-planning processes. A distinction should be made between general performance indicators and local performance indicators. General performance indicators refer to such indicators that are applicable to all municipalities, while local indicators reflect particular local developmental priorities and objectives. Any KPI should ensure that the right area of performance is measured and that the quality of performance is also assessed. Part of any process of performance measurement involves the establishment of targets for each performance indicator. Performance is then measured within a given timeframe, according to whether targets for each indicator have been achieved. The setting of performance targets can be a somewhat complicated exercise and should ultimately result in realistic and achievable objectives. In determining proper targets it is suggested that certain guidelines be used and that a checklist be developed when targets are set for particular indicators.⁷⁴

- *Performance monitoring and evaluation* The monitoring and assessment of the performance of municipalities is a crucial aspect of any successful PMS. Monitoring and evaluation are processes aimed at assessing the performance of municipalities and the people that work for them. It is important to note that the assessment of people refers not only to municipal staff members but also to external contractors that do work or provide services on behalf of a municipality. Generally speaking, performance monitoring is an ongoing process to determine whether targets are being met and whether development objectives are being

⁷⁴ According to LGIS no 2 "Performance Management" (1999) at 14 the following guidelines and checklist questions should be useful in determining performance targets: Guidelines are preciseness and measurability, relevance to user, being demanding but realistic, approved by politicians and providing communication to the public. Checklist questions could include the number of each service provided, how many new services were provided in a year, what trends are impacting on the service, what customers expect, the municipality's realistic capacity and what other similar municipalities are achieving.

achieved. Performance management must be conducted very carefully, and information should not be manipulated to produce results that appear better than they really are. Uncompromising integrity of performance management is therefore essential. In contrast with the monitoring process, performance evaluation is a deeper and more detailed process of performance analysis. Such an evaluation process looks not only at whether a municipality is performing adequately but also at the areas of underperformance. All municipalities should make special arrangements to evaluate performance regularly. A further key element of the monitoring and evaluation process is so-called “performance auditing”. This process involves verifying that the measurement mechanisms and results are accurate and that proper procedures have been followed to evaluate and improve performance. The checks built into the new legislative framework should ensure objective verification of performance results and should ultimately enhance municipal service provision and compliance with the new constitutional demands.⁷⁵

- *Performance reporting* Under the new legal framework, all municipalities are obliged to submit annual performance reports to the public and higher spheres of government. It is submitted that the reporting requirement should significantly enhance public participation and municipal accountability and should therefore be strictly enforced.
- *Capacity building* Without the necessary capacity, municipalities will not be able to perform and fulfil their duties and responsibilities. Municipal capacity building must therefore be a core element of a broader performance management strategy. Capacity building is a process of developing the ability for improved performance within municipalities and will be discussed in more detail elsewhere in this chapter.
- *Intervention* It was mentioned earlier that the Constitution allows and demands intervention into the affairs of local government when necessary. Especially the provinces are tasked with oversight and intervention powers into the affairs of municipalities when cases of non-performance are reported. Such interventions should be based on accurate diagnostic results, however, and should be undertaken on an objective basis. When intervention is allowed on subjective grounds

⁷⁵ See LGIS no 2 “Performance Management” (1999) at 16-17. A further check on performance monitoring and evaluation is public participation. Public involvement and pressure for improved performance
continued on next page

or without proper justification, the new constitutionally entrenched status of local government as an independent sphere of government would be unnecessarily jeopardised. In this regard it should be emphasised that the ultimate aim of intervention is not to create a hierarchy of one sphere of government over another but to ensure that citizens receive the essential services that are promised under the new constitutional scheme.

- *Performance incentives* Ultimately the performance of any particular municipality and its staff depends on certain incentives within the PMS. Good performance should be rewarded whilst poor performance should be penalised. Various means of incentive are possible, such as fiscal and political motivators, rewards, competitions and individual motivational schemes.

19.5.3 Implementing performance management

The implementation and maintenance of an effective PMS is in essence founded on the new constitutional foundation. All spheres of government are constitutionally obliged to fulfil their duties and responsibilities according to the constitutional prescriptions and to ensure a general system of democratic government that is accountable, responsive and open. Local governments are further tasked with specific developmental duties and the achievement of specified municipal objectives.⁷⁶ In order to determine whether such objects and duties are being met, a proper system of accountability and performance management is necessitated. Under the provisions of the Systems Act, a new legal framework for national performance management has been enacted. In essence, the new system will function as follows:

- *Step 1:* All municipalities must identify the areas that require performance measuring and improvement. This will be an integral part of the IDP process and the setting of development objectives.
- *Step 2:* Once the areas have been identified, a municipality will monitor and measure its performance by developing indicators and targets for each of the development priorities.
- *Step 3:* A municipality will then have to evaluate its performance and take steps to improve performance when targets are not being met.

formance should be protected as an important part of the overall PMS of a municipal government.
⁷⁶ See the Constitution ss 1, 152 and 153.

- *Step 4:* In addition to those areas identified by a municipality, some areas fundamental to the overall reconstruction and development of South Africa will be identified by national government, through consultation with key stakeholders such as SALGA and provincial governments.
- *Step 5:* Each municipality will be expected to report on these areas through the prescribed national indicators and targets.
- *Step 6:* A municipality will be able to exceed the targets set by national government, but it will not be able to perform below those targets.

To illustrate the practical application of the new PMS, the example is given of a municipality where 50% of the residents do not have access to clean drinking water. Water is arguably the single most essential municipal service, as it is needed for drinking, cooking, washing and cleaning. Without water, communities suffer severe discomfort and disease. As a first step, the particular municipality will identify water provision as an area that requires performance measuring and improvement. Water provision to all residents will be set as a priority with a correlating objective of giving all residents access to at least a certain number of litres of drinkable water per day. The objective will then translate into development strategies which could include major investment programmes in water schemes. Strategies could also include cross-subsidising between consumers if necessary.

As a second step, and once the area of performance have been identified, then a municipality will have to monitor and measure its performance. This is achieved through the development of KPIs and targets for each of the identified priorities. The following KPIs and targets could be relevant to the example mentioned above:

KPIs:

- the percentage of households that do not have access to water (measure growth)
- the bacterial count in water (measure quality of water)
- average time spent by community members (measure impact of scheme on community to bring water to their houses)
- percentage of residents paying for services (measure sustainability and financial impact).

Targets:

- to reduce households without water from 50% - 30% in two years
- to ensure quality of water is up to standard
- to reduce travel time for community to fetch water

- to ensure measures are taken to service payment collections better.

Under the third step, the municipality will have to evaluate its performance and will have to take steps to improve performance when targets are not met. Measurement mechanisms can include:

- keeping data of households with water
- testing water quality regularly
- surveying residents' activities and the implementation of a proper billing and credit control system.

Finally, the municipality must report on its performance management in each area as is required by law.

Although the many benefits of a proper PMS are very clear, the implementation of such a system does present various challenges. Challenges that are most common are limited financial resources, inadequate administrative capacity, poor public participation and a slow ability to adapt to the new legal order. In order for effective and efficient performance management to occur, it is suggested that all municipalities will have to commit themselves to this end and dedicate their energy to overcoming the different challenges and finding new ways to fulfil their duties and obligations. Other spheres of government must assist municipalities in this endeavour, but ultimately the responsibility lies with municipalities all over the country to start focusing on the new outcomes of municipal services and programmes.⁷⁷

19.6 Aspects regarding municipal capacity building

19.6.1 Introduction

It is a general phenomenon all over the world that local governments are pushing for autonomy and decentralised decision making. More autonomy and decentralised powers often leave municipalities with many new performance demands, however. The position in South Africa under the new local government legislative framework is no different. The new local government dispensation has created strict legal demands on municipalities to comply and fulfil certain duties and responsibilities. Without a sufficient capacity, municipalities will not be able to fulfil such duties and

⁷⁷ In order to enhance the new legislative requirements dealing with performance management the LG: Municipal Planning and Performance Management Regulations were promulgated. See GNR 796 in GG 22605 of 24 August 2001. The regulations provide for *inter alia* the nature of a performance management system, the adoption of a PMS, the setting of key performance indicators, general key performance indicators, the setting of performance targets and the monitoring review and internal auditing of performance measurements.

responsibilities, however. It is of paramount importance therefore that municipalities themselves, as well as the two higher spheres of government, ensure that municipal capacity is adequate to ensure compliance with their new constitutional and other legislative obligations. Municipal capacity building is thus regarded as one of the more important tools available to municipalities to ensure service delivery and the overall fulfilment of their duties and responsibilities. Capacity building should therefore form one of the strategic programmes that municipalities must put in place.

During the former local government dispensation, capacity building was often racially determined and did not support democratic municipal development. Under the new system municipalities have been afforded distinctive autonomy and powers and are supported to handle their own affairs in accordance with their own priorities. Capacity building should be a very important objective for all municipalities, as it will ensure various advantages. The following advantages will be secured through a solid municipal capacity:

- services are delivered as is legally required
- more powers can be delegated down to a municipal level
- better investment opportunities can be created.

Capacity building is therefore very important and should be done on the political, financial management and administrative levels. It speaks for itself that capacity building cannot be done without proper training.⁷⁸ With the restructuring of local government, the overall local government capacity building scheme had to be revisited and changed. It was especially envisaged that the new system should ensure the following results:⁷⁹

- to respond to municipal needs
- to be acceptable and aimed at all people
- to offer capacity building that qualifies officials and frontline workers for promotion and further development

⁷⁸ Under the former system two training bodies made up local government training. There was the Local Government Training Board (LGTB), established under the Local Government Training Act, and the Apprenticeship Training Board for Local Authorities (ATBLA), established under the Manpower Act. The two structures operated separately and addressed different fields in the training sector. Coordination was poor, and the absence of a common national vision on capacity building led to a lack of objectives, fragmentation of training programmes and poor staff development results. The two bodies later merged into the Local Government Education and Training Board (LGETB).

⁷⁹ See LGIS no 2 "Capacity building" (1999) at 5.

- to address the capacity building needs of rural municipalities
- to ensure the involvement of all role players to find solutions for municipal challenges.

19.6.2 Establishing a new local government training system

In the White Paper on Local Government, a vision and framework was provided within which local government capacity building was to be developed. The previous system had to be changed to become a more flexible, decentralised and demand-driven system with continuous improvement of municipal staff members and political office bearers.⁸⁰ In response to the new changes and challenges of the new system, a new set of skills and competences had to be created to ensure an overall developmental local government. Various initiatives have thus been piloted in a variety of newly created capacity building programmes and schemes.⁸¹

In follow-up on the vision in the White Paper on Local Government, various laws have been passed or amended to give more meaning and substance to the new local government capacity-building system. See, for example, the Skills Development Act,⁸² which Act requires a Sector Education Training Authority (SETA) to be established in every sector of the South African workforce in order to develop skills.

This LGSETA will be made up of representatives of both organised labour such as SAMWU and IMATU and organised employer's organisations, which are represented under SALGA. Specific functions have been envisaged for the new LGSETA to fulfil. Such functions include:⁸³

- Preparing a Local Government Skills Plan.
- Implementing the Local Government Skills Plan by
 - (a) establishing learnerships
 - (b) approving workplace skills plans
 - (c) allocating grants to employers, education and training providers and workers

⁸⁰ See the White Paper on Local Government (1998) at 115.

⁸¹ Examples of some of the new competencies and capacity-building programmes are: councilors' code of conduct, falling under SALGA training; performance management, falling under the department of Constitutional Development; integrated development planning, falling under the department of Constitutional Development; local economic development, falling under the department of Constitutional Development and NGO's financial management; voter education, falling under the IEC and senior management development, falling under university-based training programmes. See LGIS no 2 "Capacity building" (1999) at 7.

⁸² 97 of 1998.

⁸³ See LGIS no 2 "Capacity building" (1999) at 9.

- (d) monitoring local government education and training in the sector.
- Promoting learnerships by
 - (a) identifying work places for practical work experience
 - (b) supporting the development of learning materials
 - (c) improving the facilitation of learning
 - (d) assisting in the conclusion of learnership agreements.
- Registration of learnership agreements.
- Applying to SAQA for accreditation as an Education and Training Quality Authority (ETQA).
- Collecting Skills Development Levies and disbursing these to municipalities.
- Reporting on income and expenditure and the implementation of its sector skills plan to the Director-General of Labour.
- Appointing staff for the performance of its functions.

The Skills Development Act also introduces a new learnership approach to skills development. This approach requires a combination of institutional learning and workplace learning/experience. Skills development, which will require substantial financial resources, is financed largely through the Skills Development Levies Act.⁸⁴ The levies are not sufficient to meet the existing training needs, and it is clear that other funding sources such as private donors, business or even other spheres of government should be explored.

It was mentioned above that it is not only municipal staff members that are in need of new training, but also political office bearers. The new constitutional and other legislative requirements have placed important responsibilities on political representatives. In this regard SALGA has developed a so-called "councillor-training programme" for all councillors. In order to ensure quality in the new training programmes, the South African Qualifications Authority Act,⁸⁵ has established the South African Qualifications Authority (SAQA), which must oversee the implementation of a national qualifications framework (NQF). The NQF is seen as a new way of "grading" learning achievements by using eight NQF levels.⁸⁶ The new NQF ap-

⁸⁴ 9 of 1999.

⁸⁵ 58 of 1995.

⁸⁶ The lowest NQF level is level 1, which is the equivalent of grades 7-9 of the traditional high school education grading system. Level 4 corresponds to grade 12. In future, most officials will be trained against the eight NQF levels.

proach towards learning is different from the past, as it is based on learning outcomes, which are measured by the ability of a learner after training to convert his/her learning into work performance. SAQA and the NQF also promote a system for the recognition of prior learning and so-called “life-long learning”. These initiatives should allow people gradually to qualify themselves and to help to develop the careers of staff members and ensure that local government becomes an attractive place of work.

19.6.3 Mechanisms to enhance municipal capacity building

In light of the new legal requirements, it is obvious that all local governments will have to establish various training and development programmes. Such programmes and initiatives will necessarily be different for each of the different categories and types of municipality because of their diverse circumstances and responsibilities. In many instances, the new local government dispensation is characterised by various performance gaps, some of which can be filled only through the training of councillors, officials and other frontline workers. What municipalities need is a good training programme. In order to establish such a training programme municipalities need to determine which of the problems they encounter can be solved through building the capacity of staff and which cannot. In instances where internal capacity building cannot solve the problems, alternative approaches exist such as outsourcing or the conclusion of partnerships with other private or public institutions. It is also very important for municipalities to prioritise their capacity-building strategy as part of their integrated development plan. In this regard it is suggested that every IDP should incorporate a skills-development plan as a key component, which should facilitate capacity-building solutions within the municipality.⁸⁷ Under the new constitutional dispensation, all provinces are obliged to build the capacity of local governments. Various interactions and cooperation strategies must still be developed between municipalities and their respective provincial governments in order to fulfil the constitutional vision and obligations.

19.7 Conclusion

In conclusion, it is submitted that the principles of public administration, performance management and municipal capacity building are currently in need of major trans

⁸⁷ See LGIS no 2 “Capacity building” (1999) at 16.

formation. According to the new legal framework, an entirely new approach towards capacity building, performance management and public participation has been mandated. All municipalities will have to take and implement new initiatives to ensure compliance with the newly established legislative requirements. All in all one can conclude that the new vision for local government is to create an essentially customer-orientated public service. The codes of conduct for both councillors and staff members set out basic requirements for accountability and control. It is further submitted that the new legal framework indeed lays a sound foundation for a more people-orientated local government system, which should be able to meet the demands of all South African people and should ensure a better and brighter future for all.

Municipal development planning

20.1 Introduction

According to the new legal framework for local governments, a significant measure of responsibility relating to municipal planning has been decentralised to local government structures. Although municipal planning is incorporated as a functional area of concurrent national and provincial legislative competence,¹ all municipalities are constitutionally obligated to structure and manage their administrations and budgeting and planning process in such a way as to give priority to the basic needs of their communities. All municipalities must also promote the social and economic development of their communities.² The new constitutional dispensation furthermore determines that one of the objects of local government in general is to promote social and economic development and to promote a safe and healthy environment.³ Because of this new constitutional mandate, the new local government system is often referred to as a developmentally orientated local government system. It is obvious from the abovementioned requirements that local government planning processes must be structured and organised so as to achieve the objects of the new local government dispensation and also to give priority to the basic needs of their respective communities. If local governments are to achieve such a developmental system, they are to be thoroughly supported by the two higher spheres of government. Both national and provincial laws are therefore needed to ensure municipalities fulfil their developmental duties. Whereas provincial laws will often differ in content and approach, national legislation should provide an overarching set of regulatory provisions so as to enable municipalities to create a basic planning framework. In compliance with its responsibility in this regard, parliament has enacted the Local

¹ See the Constitution Part B Sch 4.

² Refer to the Constitution s 153(a).

³ See the Constitution s 152(c)-(d).

Government Municipal Systems Act.⁴ The provisions of the Act relating to planning and environmental issues will be discussed below.

20.2 National principles concerning local government developmental planning

20.2.1 General requirements relating to municipal development planning

According to the Local Government: Municipal Systems Act, local government planning is to be developmentally orientated. In order to achieve this objective, all municipalities must undertake developmentally orientated planning so as to ensure three purposes:⁵

- that municipalities strive to achieve the objects of local government set out in the Constitution
- that municipalities give effect to their developmental duties set out in the Constitution and
- that municipalities with other organs of state contribute to the progressive realisation of the (socio-economic) fundamental rights contained in the Constitution.⁶

In order to achieve and undertake planning processes that are developmentally oriented, the Systems Act determines that its provisions in this regard must also be read in conjunction with chapter I of the Development Facilitation Act.⁷

A second important feature of the new local government planning framework is that the planning processes undertaken by a municipality must be aligned with and must complement the development plans and strategies of other affected municipalities and other organs of state. The purpose of such alignment and complementation of different development plans and strategies is aimed at giving effect to the principles of co-operative government as is contained in the Constitution.⁸

Apart from the requirements of co-operation in municipal planning processes, municipalities are also obligated to participate in national and provincial developmental programmes. Such participation is directly required by the Constitution and is also a

⁴ 32 of 2000 as amended. The Act aims *inter alia* to establish a simple and enabling framework for the core processes of planning, which process *should* underpin the notion of developmental local government. Refer also to the long title of the Act.

⁵ See the Systems Act s 23(1)(a)-(c).

⁶ Refer to the Constitution ch 2s 24, 25, 26, 27 and 29.

⁷ See the Systems Act s 23(2) as well as the Development Facilitation Act 67 of 1995.

⁸ Refer to the Systems Act s 24(1) read together with the Constitution ss 40 and 41. According to s 41, all three spheres of government and all organs of state within each sphere must adhere to the principles of co-operative government as are set out in the Constitution. The main objective of co-operative government is to ensure co-operation and co-ordination between the various role players.

national consequence of the fact that both national and provincial governments have concurrent legislative competence over municipal planning activities.⁹ The new legal framework also determines that if municipalities are required to comply with planning requirements in terms of national or provincial legislation, then the responsible organ of state must

- align the implementation of that legislation with the provisions of chapter 5 of the Systems Act and
- consult with the affected municipality in such implementation and take reasonable steps to assist the municipality in meeting the legal requirements relevant to its IDP.¹⁰

Before either national or provincial legislation affecting municipal planning issues is introduced in parliament or a provincial legislator, the organ initiating the legislation must consult with OLG. Similar consultation is required in respect of subordinate legislation before such legislation is enacted.¹¹ Again the underlining principle of co-operation and co-ordination as part of a system of co-operative government is emphasised.

The new legal framework directed at municipal planning also requires specific requirements regulating the adoption of IDPs. According to the Systems Act, each municipal council must adopt a single, inclusive and strategic plan for the development of the municipality within a prescribed period after the start of its elected term. Such plan should have the following aims:¹²

- (a) to link, integrate and co-ordinate plans and to take into account proposals for the development of the municipality;
- (b) to align the resources and capacity of the municipality with the implementation of the plan;
- (c) to form the policy framework and general basis on which annual budgets must be based;
- (d) to comply with other provisions of the Systems Act;
- (e) to ensure compatibility with national and provincial development plans and planning requirements binding on the municipality in terms of legislation.

⁹ Refer to the Constitution s 153(b), which specifically requires this participation.

¹⁰ See the Systems Act s 24(3)(a)-(b).

¹¹ See the Systems Act s 24(4).

¹² See the Systems Act s 25(1)(a)-(e).

An IDP adopted by a municipal council as mentioned above may be amended, but it remains in force until a new IDP is adopted by the next elected council.¹³ A newly elected municipal council may adopt the IDP of its predecessor, but must comply with certain requirements.¹⁴ Finally, it is required for all municipalities to give notice to the public of such adoption within 14 days of the adoption of its IDP and also to make copies or extracts from the plan available for public inspection. A summary of the plan must also be published.¹⁵

20.2.2 The contents and core components of Integrated Development Plans

The new national regulatory legislation furthermore sets specific core components that IDP must incorporate. According to the Systems Act, an IDP must reflect the following:¹⁶

- (a) the municipal council's vision for the long term development of the municipality with special emphasis on the municipality's most critical development and internal transformation needs;
- (b) an assessment of the existing level of development in the municipality, which must include an identification of communities which do not have access to basic municipal services;
- (c) the council's development priorities and objectives for its elected term, including its local economic development aims and its internal transformation needs;
- (d) the council's development strategies which must be aligned with any national or provincial sectoral plans and planning requirements binding on the municipality in terms of legislation;
- (e) a spatial development framework which must include the provision of basic guidelines for a land use management system for the municipality;
- (f) the council's operational strategies;
- (g) applicable disaster management plans;
- (h) a financial plan, which must include a budget projection for at least the next three years; and
- (i) the key performance indicators and performance targets determined in terms of section 41.

¹³ See the Systems Act ss 34 and 25(2).

¹⁴ Read the Systems Act ss 25(3)(a) and 29(1)(b)(i), (c) and (d) in conjunction with one another.

¹⁵ See the Systems Act s 25(4)(a)-(b).

¹⁶ See the Systems Act s 26(a)-(i).

It is quite clear that the IDP has a central and very important function within the new local government system. The IDP serves basically as a guiding document for the short term developmental needs and initiatives of every municipal government in South Africa. For this reason, special provision regarding the status of an IDP has been made and will be discussed later.¹⁷

20.2.3 Requirements regarding the process for planning, drafting, adopting and reviewing Integrated Development Plans

The Systems Act also determines specific procedures regarding the framework for integrated development planning, for adoption and review procedures of IDP(s) and for the role players involved during the various processes.

In order to establish a framework for integrated development planning, each district municipality must adopt a framework for integrated development planning in its area as a whole. The adoption of this framework is to be effected within a prescribed period after the start of the elected term of the council and also after a consultative process with the other local municipalities in the area has been followed. After adoption, the IDP framework binds both the district municipality and local municipalities in the relevant area jurisdiction of the particular district.¹⁸ At the very least, the framework must

- identify the plans and planning requirements binding in terms of national or provincial legislation on the district municipality, the local municipalities or even any specific municipality on its own within the area
- identify the matters to be included in the IDPs of the district and local municipalities that require alignment
- specify the principles to be applied and co-ordinate the approach to be adopted in respect of the alignment of IDP matters
- determine procedures for consultation between the district and local municipalities during the process of drafting their respective IDPs and also the procedures to be implemented in order to effect essential amendments to the framework.¹⁹

¹⁷ See the Systems Act s 35. Refer also to item 2 of the local government: Municipal planning and performance management regulations as published under GNR 796 in GG 22605 of 24 August 2001. Item 2 deals with the details of an IDP.

¹⁸ See the Systems Act s 27(1)-(2).

¹⁹ Refer to the Systems Act s 27(2)(a)-(d). It should be noted that these provisions are applicable only between a district municipality and its various local municipalities. In a metropolitan area,

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Through their municipal councils and within a prescribed period after the start of their elected term, all municipalities are obliged to adopt a process set out in writing to guide the planning, drafting, adoption and review of their IDPs, however.²⁰ Through the various mechanisms of public participation, a municipality must consult with its local community before adopting the process mentioned above and must give notice to the local community regarding the particulars of the process it intends to follow.²¹

With reference to the process to be followed by a municipality to draft its IDP, the municipality must ensure the following requirements:²²

- that the process is in accordance with a predetermined programme which must specify timeframes for different steps
- that mechanisms of public participation allow for
 - (a) the local community to be consulted on its development needs and priorities
 - (b) local community participation in the drafting of the IDP
 - (c) organs of state, traditional authorities and other role players to be identified and consulted on the drafting of the IDP
- that the identification of all plans and planning requirements that are binding on the municipality in terms of national and provincial legislation are provide for
- that the IDP is consistent with any other matters that may be prescribed by regulation.

In areas outside metropolitan areas, all district municipalities must plan integrated development for the area as a whole but in close consultation with the local municipalities and must draft its IDP after having taken into account the integrated development processes of and proposals submitted to it by the local municipalities in its area. Simultaneously, all local municipalities must align their IDPs with the framework adopted by the district municipality and must draft their IDPs, after taking into account the IDP process and proposals from the district municipality.²³

no such co-operation and alignment is necessary, as the metro municipality is the only local government operating in the particular area of jurisdiction.

²⁰ The new requirements make it clear that each and every local government is legally required to draft and adopt an IDP for its area. See the Systems Act s 28(1).

²¹ See the Systems Act s 28(2)-(3).

²² See the Systems Act s 29(1)(a)-(d).

²³ See the Systems Act s 29(2)-(3). It is clear that in the new legal system a district council's responsibility for a district IDP is a statutory requirement. All district councils must formulate district wide IDPs, which must include a framework for the IDPs of local councils in their areas of jurisdiction.

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The management of the IDP drafting processes falls under the responsibility of the executive committee or executive mayor of a municipality or under a committee of councillors appointed by the municipal council if it is a municipality without an executive committee or an executive mayor. The responsible committee or person must manage the drafting of the IDP, must assign responsibilities to the municipal manager in the IDP process and must submit the draft plan to the municipal council for adoption by the council.²⁴ Further monitoring and support to the process of integrated development planning is provided for in that the MEC for local government in the province may:

- monitor the process followed by a municipality
- assist a municipality with the planning, drafting, adoption and review of its IDP
- facilitate co-ordination and alignment of the IDPs of different municipalities and the strategies and programmes of national and provincial organs of state.

The MEC may take any appropriate steps to resolve disputes or differences in connection with the IDP processes between a municipality and its local community or between municipalities.²⁵

After an IDP has been adopted or amended, the municipal manager of a municipality must submit a copy of the IDP to the MEC for local government in the province within ten (10) days after such adoption/amendment. The copy of the IDP must further be accompanied by a summary of the pre-adoption process, a statement that the process has been complied with, together with explanations where necessary, and finally in the case of a district and local municipality, a copy of the framework adopted for integrated development planning between the municipalities.²⁶ The MEC may within 30 days of receiving a copy of an IDP or amendment thereto, or within such reasonable longer period as may be approved by the minister of local government, request the relevant municipal council to adjust the plan or the amendment, in

tion. District IDPs should thus determine a strategy for promoting economic development in the entire district and ensure upliftment of all communities. Such IDPs should guide revenue-raising and service-delivery activities and promote interaction between citizens, councillors, officials and higher spheres of government. It is important that District and Local IDPs be drawn up parallel to each other and inform and reinforce one another. District councils are thus responsible for aligning and co-ordinating potentially contradictory municipal IDPs. District IDPs are an important tool for integrating service-delivery activities and municipal goals.

²⁴ See s 30(a)-(c) of the Systems Act.

²⁵ See s 31(a)-(d) of the Systems Act. The monitoring and provincial supervision is subject to any other law(s) enacted to regulate such supervision in local government spheres, however.

²⁶ Refer to the Systems Act s 32(1)(a)-(b)(i)-(iii).

accordance with the MEC's proposals, if the plan/amendment does not comply with a requirement of the Systems Act or is in conflict or not aligned with the development plans and strategies of other affected municipalities or organs of state. The MEC may then request a municipal council to comply with the provisions of the Systems Act.²⁷ A municipal council must consider the MEC's proposals and, within 30 days of receipt of such proposals, adjust its IDP accordingly, if it agrees with the proposals. If a municipality disagrees with the proposals, it must object thereto and must furnish the MEC with written reasons for disagreeing. On receipt of such an objection, the MEC may refer the objection to an *ad hoc* committee for a decision. If the MEC decides to refer the objection, it must be referred within 21 days of receipt of the objection.²⁸

The *ad hoc* committee mentioned above must be appointed by the MEC, whenever necessary. The committee must consist of members representing local government, the provincial government and national government. The MEC appoints the members of an *ad hoc* committee with the concurrence of the municipality concerned, the provincial organ or organs involved and with the concurrence of the national organ or organs of state involved in the dispute or in whose functional area the disputed is located.²⁹ The procedure of the *ad hoc* committee must be dealt with in accordance with procedures prescribed by regulation.³⁰ A matter before an *ad hoc* committee is decided if at least two spheres of government agree on the matter. If the committee rejects the objection(s) of the municipality, the municipality must comply with the initial request by the MEC within 30 days of the decision and after having been informed of the decision.³¹

All municipalities are also obligated to review their IDPs annually in accordance with an assessment of their performance measurements under section 41 of the Systems Act and also to the extent that changing circumstances so demand. The amendment procedure should be in accordance with a prescribed process.³²

²⁷ See the Systems Act s 32(2)(a)-(b).

²⁸ It seems clear from the Act that the MEC has a discretion either to refer such a dispute to an *ad hoc* committee or not to. Should he decide not to refer it, it seems that his decision would be final. See the Systems Act s 32(3)-(4).

²⁹ See s 33(2)(a)-(c) for more details.

³⁰ See the Systems Act ss 33(3) and 37.

³¹ See the Systems Act s 33(4)-(5).

³² Refer to the Systems Act s 34(a)-(b).

20.2.4 Miscellaneous aspects concerning municipal integrated development planning

The new legislative framework also affords specific status to a particular IDP. The Systems Act determines that an IDP adopted by a municipal council has the following importance:

- It serves as the principal strategic planning instrument which guides and informs all planning and development and decisions relating thereto in a municipal area.
- It binds the municipality in the exercise of its executive authority, except to the extent of any inconsistency between a municipality's IDP and national or provincial legislation, in which case such legislation is to prevail.
- It binds all other persons to the extent that those parts of the IDP that impose duties or affect the rights of those persons have been passed as a by-law.³³ It should be noted that a spatial development framework contained in an IDP prevails over a plan as is defined in section 1 of the Physical Planning Act of 1991.³⁴

Finally, the Systems Act determines that all municipalities must give effect to their IDPs and conduct their affairs in a manner which is consistent with their IDPs. The national minister is further authorised, for the purposes of municipal integrated development planning, to make regulations or to issue guidelines in terms of section 120 of the Act and to provide or to regulate certain matters. Such matters are the following.³⁵

- (a) incentives to ensure that municipalities adopt their integrated development plans within the applicable prescribed period, and comply with the provisions of the Act concerning the planning, drafting, adoption and review of those plans;
- (b) the detail of integrated development plans taking into account the requirements of other applicable national legislation;
- (c) criteria municipalities must take into account when planning, drafting, adopting or reviewing their integrated development plans;

³³ See the Systems Act s 35(a)-(c). Although an IDP has been given statutory recognition and status, if certain parts of an IDP impose duties or affect the rights of other persons, such as the local community, eg, then such aspects should have been incorporated in a by-law and should have been passed as such to have binding force over such persons. See s 35(1)(c).

³⁴ 125 of 1991 and the Systems Act s 35(2).

³⁵ See the Systems Act s 37(1)(a)-(i).

- (d) the detail of the process for the planning, drafting, adoption and review of integrated development plans;
- (e) a process for the amendment of integrated development plans;
- (f) the manner in which an objection must be referred to an *ad hoc* committee envisaged in section 33;
- (g) the manner in which written evidence or documents must be submitted to an *ad hoc* committee;
- (h) the proceedings of an *ad hoc* committee; and
- (i) any other matter that may facilitate –
 - (i) integrated development planning and the drafting of integrated development plans; or
 - (ii) the application of this chapter.

When the minister makes regulations or issues guidelines to regulate matters under subsection 37(1)(b)-(e), he/she must take into account the capacity of municipalities to comply with those matters and must differentiate between different kinds of municipality according to their respective capacities. Furthermore, the minister is authorised to phase in the application of the provisions of the chapter on integrated development planning where such provisions place a financial or administrative burden on such municipalities.³⁶

20.3 Conclusion

It was demonstrated above that municipal development planning is not only a legal obligation for all municipalities but that without such planning municipalities will not be in a position to fulfil their obligations and responsibilities. The new local government dispensation is developmentally orientated, which in essence requires progress in the real realisation of developmental goals. Municipalities must therefore move forward and should enhance and create a better living environment for all South African citizens. Development planning is not something that can be done in isolation by individual municipalities. It requires constructive involvement of all three spheres of government on a vertical axis and also all relevant municipalities *inter se*, on a horizontal axis. The constitutional obligations and principles of co-operative govern-

³⁶ See the Systems Act s 37(3)-(4). Refer again to the LG: Municipal Planning and Performance Management Regulations as published under GNR 796 of GG 22605 of 24 August 2001. Apart from the details of an IDP, the regulations also address the process for amending IDPs, referring of objections to IDPs to an *ad hoc* committee, as well as requirements giving effect to an IDP.

ment are therefore of significant importance in relation to developmental strategies and interaction between the various organs of state. Such co-operation will benefit not only municipalities but also both national and provincial policies and programmes.

Municipal development planning is incorporated mainly in a Municipal Integrated Development Plan (MIDP), which serves as a single, inclusive and strategic plan for the development of the municipal area. All MIDP must incorporate certain minimum core components as they guide the short-term development of local governments in South Africa. Because of its importance, an MIDP is strongly protected, and strict requirements for its adoption and amendment are determined by law. Such plans are flexible, living documents, however, and should be reviewed annually to keep up with the changing demands and circumstances in municipal jurisdictions. All in all, the new requirements and status of MIDP should go a long way towards helping the new local government structures to manage and achieve their important constitutional obligations.

Basic legal matters relevant to local government structures

21.1 Introduction

In light of the various aims and responsibilities of local governments, it is generally accepted that such governments are confronted with almost all aspects of the law. It was explained in chapter 10 that municipalities have been established throughout the whole territory of South Africa, and therefore there is no area that does not fall under the direct authority of a particular municipal council. The importance of legal knowledge regarding not only the composition and functioning of municipalities, but also other fields of law is of significant importance. No legal practitioner can practise law in a particular area in our country without a sound knowledge of the legal rules that are applicable to local governments. Every now and then a practitioner will be confronted with legal disputes that concern the particular local authority either directly or indirectly. In many areas, the local municipality is often the largest employer organisation and also the largest economically active entity. In short, one can say that a legal adviser for a local government or a practitioner advising clients on local government matters should have a sound legal knowledge of almost all the different fields of the South African law.

In order to be able to handle and address legal problems, it is important to know the law and where to find the law. As the law is constantly changing and developing, it is obvious that all role players in local government should be able to access and then apply the relevant legal rules that encompass the new local government dispensation. All role players must have a sound knowledge of the different sources of local government law. These sources are mentioned briefly below.

21.2 Sources of local government law

In principle, there are three main sources of local government law. They are :

- legislation
- a combination of common law and customary law

- legal precedents.

It is only legislation and case law that are of importance to local government practitioners and legal scholars, however. Since local government law is part of the broader constitutional system of South Africa, customary and common law rules have very little or no influence or impact as a source of local government law.¹

21.2.1 Legislation as a source of local government law

Legislation is without a doubt the most important and influential source of local government law. It was discussed and explained above that the new local government dispensation was not only created in terms of legislation but that it also functions and operates according to various pieces of legislation. Such legislative requirements can be from either the national or a provincial government.² It should be pointed out that the term “legislation “ as referred to here, is a wide term and includes both national and provincial laws, as well as proclamations and regulations made by ministers or MECs.³

Within the ambit of legislation, it should be obvious and self-explanatory that the Constitution of the Republic of South Africa, which is a very unique and important legislative source of the country’s legal system, forms the basic legal framework on which the new local government system has been founded. The Constitution defines mainly the powers and functions of all three spheres of government and, in particular, the powers and functions of all local governments.⁴

Apart from the constitutional text itself, the Constitution further mandates the enactment of various other national and provincial laws, with the purpose of giving body to the basic legal framework of local governments. Such Acts, as was mentioned and discussed in the previous chapters of this work, then complete the legal framework within which local governments are operating.⁵

¹ For more on this point see the cases of *In re: Certification of the Constitution of the RSA 1998*, 1996 (4) SA 744 (CC) and also *President of the RSA v Hugo* 1997 (4) SA 1 (CC).

² Because of the ever-changing needs of society, local government law is contained and regulated mainly by legislation.

³ See the Constitution s 239 for a more exact definition of the term “legislation”.

⁴ As the supreme law of the state, the provisions and requirements of the Constitution are non-negotiable. Non-compliance with the Constitution would result in invalidation. See the Constitution s 2.

⁵ It was mentioned above that local government *per se* is not a concurrent legislative competence or exclusive legislative competence in terms of the Constitution Sch 4 and 5. This position seems to indicate that it is left for mostly the national government to legislate on local government matters, if so allowed by the Constitution. See the Constitution s 163. Only when the Constitution allows provincial laws over certain matters will it be possible for provincial governments to legislate

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21.2.2 The importance of customary and common law principles

Basically there are two main reasons for both the common law and customary law not featuring as important sources of local government law. In the first instance, the new local government system is a totally new legal system which had its origins within the new constitutional legal foundation. The new system was totally overhauled to such an extent that common law rules are no longer of any importance. Secondly, the Constitution also does not contain a provision to the extent that the former common law or customary law principles still continue.⁶ Apart from this position, the former local government system was regulated mainly by legislation under the then government of South Africa. The influence of common law or customary law under the former system was largely non-existent. Finally, it was held by the highest judicial authority in South Africa that even from a constitutional viewpoint there are no common law powers left that were derived from the former royal prerogatives. All such powers have now been enumerated within the text of the Constitution or other legislation.⁷

21.2.3 Judicial precedent as a source of local government law

Apart from legislation, judicial precedents, or what are commonly referred to as “case law”, are the second most important source of local government law. The importance of legal jurisprudence is founded on two issues in particular. Firstly, South Africa follows the legal doctrine of *stare decisis*, which means that the lower courts in the hierarchy of judicial bodies are compelled to follow the decisions, in similar cases, handed down by the higher courts. Secondly, the Constitution clearly spells out the importance and role of the judicial authority in our legal system. According to the Constitution, the judicial authority of the Republic of South Africa is vested in the courts and the courts are subject to the Constitution and the law only. Any order or decision by a court binds all persons to whom it applies, including the state.⁸ The importance of judicial precedents is therefore self-evident, and local government

over such matters. See, eg, the Constitution s 139. Provincial laws relevant to local governments are therefore much less important than their national counterparts.

⁶ Under the 1983 Constitution s 88 such conventions still continued to be in force. The 1996 Constitution does not provide for such continuation.

⁷ See the *First Certification Judgment* 1996 1996 (1) SA 1 (CC); *President of the RSA v Hugo* 1997 (4) SA 1 (CC) and *President of the RSA v SARFU* 2000 (1) SA 1 (CC).

⁸ See the Constitution s 165(1)-(5).

practitioners and scholars must ensure that they keep up to date with decisions of our courts regarding local government legal matters.

Apart from the sources mentioned above, there are no other real sources of local government law. Although the works and writings of legal scholars, the discussion and deliberations of politicians and the submissions of the concerned public at large are of importance to legal development, such aspects are not sources of local government law and should be regarded only as primary information sources from which the content of the law can sometimes be determined.

21.3 Important fields of law relevant to local government law

It was mentioned above that local government administrations often face a large variety of legal issues. In order to cope with such issues, most municipal councils that can afford to do so have a specific legal section that advises and handles legal problems for both the political and administrative branches of the local authority. Municipal legal advisors are therefore responsible for both internal and external legal matters. Such a situation often demands broad legal and paralegal expertise. Local government matters are important not only to the political office bearers and administrative personnel, however. Such matters are also regularly of importance to the relevant local community. Of the three spheres of government, citizens of a state are most likely, at some stage, to be involved in a legal dispute with their local authority. Against this background it is obvious that local community members are in need of professional and expert legal advice and assistance regarding local government legal matters.

It falls way beyond the scope of this work to discuss or even try to explain the various legal fields that are of importance in municipal matters. What is of interest, however, is to highlight briefly some of the most common areas of legal dispute that involve local governments. While it is the task of lawyers and legal advisors to keep knowledgeable about the law in general, some of the specialised legal issues are also of value for both the political and administrative components of a municipality in order for them successfully to fulfil and maintain their duties and responsibilities.

21.3.1 Common legal issues relevant to local governments

- *The law of contract* The law of contract is particularly important to local government legal advisors. All municipalities are involved in various legal contractual re-

relationships on a regular basis. As a sphere of government and a legal entity, municipalities are legally empowered to enter and conclude contracts.⁹

- *Property law* The law concerning property and other related issues is also of regular importance to local governments. Property is regarded as of such importance in our modern democracy that it has been afforded direct protection under the Constitution.¹⁰ Property law also includes issues regarding
 - (a) expropriation
 - (b) property leasing
 - (c) purchase, sale and acquisition
 - (d) transfer of property ownership
 - (e) other related land use rights such as the restitution of land rights, land reform measures, communal property associations, informal land rights issues and eviction requirements and procedures.¹¹

⁹ See also *Keyser v Orkney Town Council* 2003 (4) SA 131 (T) with reference to lease agreements. In *Gordon v Pietermaritzburg-Msunduzi: TLC and Another* 2001 (4) SA 972 (N) it was mentioned that with the advent of SA's new constitutional dispensation, momentous changes were brought about to local government. The court held that the contract concluded between the parties was impossible to perform and, although it was true that the state was bound by ordinary commercial contracts concluded by it, in cases of impossible performance, the law of contract allows for the cancellation of the agreement. In the case certain regulations, which formed the basis of the contractual relationship between the parties, were repealed in the context of an entirely new constitutional dispensation, which included local government. See paras B-D at 978.

¹⁰ According to the Constitution s 25, no *person* may be deprived of property except in terms of a law of general application. Arbitrary deprivation of property is specifically outlawed. Although property may be expropriated, there are specified requirements under which such expropriation must be done. Refer also to the case of *Modderfontein Squatters, Greater Benoni City Council v Modderklip boerdery (Pty) Ltd (Agri SA and Legal Resources Centre as amici curiae)*, also referred to as *President of the RSA v Modderklip boerdery* 2004 (6) SA 40 (SCA).

¹¹ Most of these issues are regulated in terms of specific Acts of parliament. For more on municipal property-related issues, refer to Nonyana MR "Communal Property Associations for convenience v townships for services and maintenance" *Property Law Digest* August 2000 Butterworths at 3. The writer refers to the Communal Property Association Act 28 of 1996 which has improved communal land ownership. See also the following cases: *De Villiers en 'n Ander v Stadsraad van Mamelodi en 'n Ander* 1995 (4) SA 347 (T) dealing with expropriation under the Expropriation Act 63 of 1975. See also *Cape Town Municipality v Table Mountain Aerial Cableway Co Ltd* 1996 (1) SA 909 (C). In *Southern Metropolitan Substructure v Thompson and Others* 1997 (2) SA 799 (W) it was held that a local authority's duty to provide and allocate housing cannot lawfully be fettered by contractual undertakings not to evict illegal occupiers of land. When land/property is sold, it must be described sufficiently in accordance with the Alienation of Land Act 68 of 1981. Faultless description is not required. See *Headermans (Vryburg) (Pty) Ltd v Ping Bai* 1997 (3) SA 1004 (SCA). See also *M & J Morgan Investments (Pty) Ltd v Pinetown Municipality* 1997 (4) SA 427 (SCA), and *Randburg Town Council v Kerksay Investments (Pty) Ltd* 1998 (1) SA 98 (SCA) dealing with expropriation issues. Refer also to *Skinberg v South Peninsula Municipality* 2001 (4) SA 1144 (C). It was stated as a *semble* to the case that despite the clear distinction made in the Constitution s 25 between deprivation and expropriation of property, there may be room for the development of a doctrine akin to constructive expropriation in South Africa, particularly where a public body utilises a regulatory power in a manner which, taken in isolation, can be categorised as a deprivation of prop-

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An interesting aspect regarding land is the Subdivision of Agricultural Land Act,¹² which requires that agricultural land may not be subdivided unless the Minister of Agriculture has given his written consent thereto.¹³ Section 12 of the Local Government: Municipal Structures Act¹⁴ allowed for the establishment of new municipalities for the entire territory of South Africa, however.¹⁵ Accordingly, it is argued by some that all land now falls within the jurisdiction of a municipality.¹⁶ Since agricultural land also falls within the jurisdiction of a municipal council, it seems that section 3 of the Subdivision of Agricultural Land Act no longer has application.

- *The law of delict* The law of delict is an equally important field of law within the local government domain. All municipalities face delictual accountability on a daily basis. Delictual liability is confined not only to general delictual claims but also more specialised claims under the legal protection of vicarious liability, defamation and other unique forms of delictual accountability. The law of delict is a vast and often complex field of the law and should be studied carefully.¹⁷

erty rights and not an expropriation, but which has the effect, albeit indirectly, of transferring those rights to the public body. Other issues dealing with property-related matters were decided in *Bailes v Town and Regional Planning Commission* 2002 (2) SA 589 (N), *Kotzé v Minister of Landbou en Andere* 2003 (1) SA 445 (T), *City of Cape Town v Unlawful Occupiers, Erf 1800, Capricorn* 2003 (6) SA 140 (C) and *Baartman and Others v Port Elizabeth Municipality* 2003 (3) SA 560 (SCA). Refer also to Griffiths G "Not so fast – that's municipal land: A discourse on the acquisition of municipal property under the Cape Municipal Ordinance 20 of 1974" *Property Law Digest* (1999) Butterworths at 11.

¹² 70 of 1970.

¹³ Refer to the Act s 3.

¹⁴ 117 of 1998.

¹⁵ Read also the Constitution s 151(1), which states that the local sphere of government consists of municipalities which must be established for the whole territory of the Republic.

¹⁶ See the letter of MJ Meyer "Is Act 70 of 1970 still necessary?" *DR* December 2001 at 5.

¹⁷ Judicial examples of recent delictual cases concerning local authorities are the following: *Masureik (t/a Lotus Corporation) v Welkom Municipality* 1995 (4) SA 745 (O), dealing with the responsibility of a municipal airstrip; *Gardner v Whitaker* 1995 (2) SA 672 (E), dealing with issues of defamation; *Cape Town Municipality v Butters* 1996 (1) SA 473 (C), dealing with public liability; *Cape Town Municipality v Bakkerud* 1997 (4) SA 356 (C), concerning municipal liability for damages resulting from an omission to repair streets and pavements; *Welkom Municipality v Masureik and Herman t/a Lotus Corp* 1997 (3) SA 363 (SCA); *Pretoria City Council v De Jager* 1997 (2) SA 46 (SCA), dealing with the liability when failing to take reasonable precautions to prevent foreseeable harm on municipal sidewalks; *Graham v Cape Metropolitan Council* 1999 (3) SA 356 (C); *Cape Town Municipality v Bakkerud* 2000 (3) SA 1049 (SCA); *Grootboom v Graaff-Reinet Municipality* 2001 (3) SA 373 (E); *Cape Metropolitan Council v Graham* 2001 (1) SA 1197 (SCA); *Mostert v Cape Town City Council* 2001 (1) SA 105 (SCA), concerning liability for municipal council's water main bursting and *Minister of Safety and Security v Duivenboden* 2002 (6) SA 431 (SCA) relevant to municipal security/police services. See also the following academic research: Scott J "Grootboom v Graaff-Reinet Municipality" *De Jure* 2002 at 635; Scott J "Re-affirmation of the doctrine of immunity of municipalities against liability for wrongful omissions assessed and rejected – Cape Town Municipality v Bakkerud 2000 (3) SA 1049 (SCA) *THRHR* 2001 (64) at 502; Scott J "The Cape Metropolitan Council v Noel Raymond Graham case no 157/99 (C)" *De Jure* (2001) at 198; Scott J "Cape Town Municipality v Butters 1996 (1) SA 473 (C)" *De Jure* (1996) at 379 and Smith A "Mu-

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- *Constitutional law and administrative law* The importance of constitutional law, which includes not only formal constitutional law but also aspects of fundamental rights law, administrative law, environmental law, legal interpretation and even some aspects of public international law have been highlighted above. Apart from the obvious importance of the Constitution and its Bill of Rights, the legal rules regulating the field of administrative law are also of particular importance to all local government bodies. Many municipal actions form part of the executive authority of the state and therefore fall under the rules of administrative law. The importance of administrative law was specifically highlighted in the case of *Fed-sure Life Assurance v Greater Johannesburg TMC*.¹⁸ In this case it was mentioned that when a legislature, whether national, provincial or local, exercises the power to raise taxes or rates or determines appropriations to be made out of public funds, such a power is peculiar to elected legislative bodies. Such powers are exercised by democratically elected representatives after due deliberation of the circumstances and cannot be classed as administrative action.¹⁹ Not only the legal advisors of a municipality, but all municipal administrators, should have a basic understanding and knowledge of administrative law and its various related legal rules.²⁰
- *Criminal law* Municipalities are also often involved within the ambit of criminal law. Such issues are confined not only to incidents where municipal personnel are implicated in criminal activity but can also relate to incidents where municipal employees or even councillors are held criminally liable for activities within a particular municipality. So, for example, is it possible for a municipal official, mostly the municipal manager, to be held liable for non-compliance with certain

municipalities mend your ways" *The Quarterly Law Review* for people in business vol 8 part 2 (2000) at 40.

¹⁸ 1999 (1) SA 374 (CC).

¹⁹ Refer to para 45 at 396-397.

²⁰ For more on constitutional and administrative law see the cases of *Claude Neon Ltd v Germiston City Council and Another* 1995 (3) SA 710 (W), where the court held that an undertaking by a local authority official to notify a person is an administrative act that gives rise to a legitimate or reasonable expectation. See also *Tony Rahme Marketing Agencies SA (Pty) Ltd and another v Greater JHB TMC* 1997 (4) SA 213 (W); *Gencor SA Ltd v TC for Rustenburg and Environs and another* 1998 (2) SA 1052 (T); *Erf one six seven Orchards CC v Greater JHB Metro Council and Another* 1999 (1) SA 104 (SCA) and *Transnet Ltd v Goodman Brothers (Pty) Ltd* 2001 (1) SA 853 (SCA). See *City of Cape Town v Rudolph and others* 2004 (5) SA 39 (CPD) regarding a housing dispute under s 26 of the Constitution.

legislative requirements.²¹ The importance of criminal law within the new local government dispensation should not be underestimated, therefore.

- *Labour law* The importance of labour law for municipal governments is particularly highlighted by the fact that municipalities are often one of the larger employer organisations within a particular municipal area. Depending on the size of the municipality, municipal councils employ hundreds or even thousands of personnel. Labour law issues are thus part and parcel of a municipal administration, and a sound knowledge of labour law is essential. Apart from normal labour issues such as wage negotiations, promotions and disciplinary action against employees, local government administration also encounter more specialised labour issues such as disputes within essential services areas. Because of the importance of labour law in local government, most municipalities have established personnel and labour relations departments to handle such matters. There is even a specific bargaining council that was established to resolve and deal with municipal labour issues between municipalities as employers, and labour unions as representatives of municipal employees.²²
- *Building regulations and town and regional planning law* All municipalities are required to be involved in local planning processes and developmental programmes. Each municipal government is therefore regularly involved in town planning activities, and municipalities must also ensure that minimum building standards are complied with.²³

²¹ See the Occupational Health and Safety Act 85 of 1993 as an example.

²² For typical examples of labour-related issues in local authorities see *Cape Local Authorities Employers Organisation v IMATU* 1997 (1) SA 656 (C) and *Mhlambi v Matjhabeng Municipality and another* 2003 (5) SA 89 (O). In the latter case the court held *inter alia* that a reasonable request for further particulars in a disciplinary action is an ingredient of the right to a fair hearing and that the principles of natural justice demanded that such information be furnished.

²³ For more on town planning and building requirements see the National Building Regulations and Building Standards Act 103 of 1977. Refer also to cases such as: *Sandton Town Council v Gourmet Property Investments CC* 1994 (4) SA 569 (A) dealing with national building regulations; *Diepsloot Residents and Landowners Association and Another v Administrator Tvl* 1994 (3) SA 336 (A); *Schapenrome Investments (Edms) Bpk v Sandtonse Stadsraad* 1994 (2) SA 34 (A); *Stands 5/1 Wierda Valley (Pty) Ltd and Another v Sandton Town Council* 1994 (1) SA 333 (A); *Knop v JHB City council* 1995 (2) SA 1 (A); *Huisman v Minister of Local Government, Housing and Works* 1996 (1) SA 836 (A); *East Zulu Motors v Empangeni/Ngwelezane TLC* 1998 (2) SA 61 (CC) and also *Paola v Jeeva and others* 2004 (1) SA 396 (SCA), concerning the value of a view of a property. Refer also to Van Wyk J and Van Wyk D "Planning law, administrative justice and the Constitution: *Van Juyssteen v Minister of Environmental Affairs and Tourism* 1996 (1) SA 283 (C)" *THRHR* 1996 (59) at 675 *et seq*; *Gildenhuys A "Omgewingsbewaring beperkings op grondgebruiksveranderingen"* *Butterworths Property Law Digest* (2000) at 13 and Van Wyk J "Planning Law – Will Cinderella emerge a princess?" *THRHR* 1996 (59) at 1. See also the case of *Humphrys NO v Barnes* 2004 (2) SA 577

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- *Environmental law* It was mentioned above that all three spheres of government must comply with the new constitutional requirements. One such requirement is the provision of a clean and healthy environment. Environmental laws are therefore of significant importance for all local authorities. It is essential for municipalities to determine their responsibilities under current legislative provisions and to ensure compliance with their obligations in that regard.²⁴

21.4 Special legal matters pertaining to local government

Apart from the general legal fields that have an impact on local governments, the new local government legal framework also provides for specific legal matters that are of particular importance to local authorities.²⁵ These special provisions regarding municipal legal matters must be read in conjunction with the general provisions of the law.

21.4.1 Legal proceedings

According to the Systems Act, all municipalities are authorised to compromise or compound any action, claim or proceedings and may submit to arbitration any matter other than a matter involving a decision on its status, powers, duties or the validity of its actions or by-laws.²⁶ The particular subsection is somewhat dubious and unclear. As a legal person all municipalities have legal standing and may thus institute or defend any legal action in which they have a direct, or sometimes indirect, interest. However, this position is conditional to the extent that the particular legal action is indeed permissible under the law in general.

21.4.2 Legal representation for employees or councillors of a municipality

Under the new legal framework, it is permissible for a municipality, subject to such terms and conditions as it may determine, to provide an employee or a councillor of

(CPD) regarding the collapsing of a boundary wall between two private property owners. Refer also to *Botha v White* 2004 (3) SA 184 (TPD) regarding the use of a property contrary to the applicable zoning. See also *Clark v Faraday and Another* 2004 (4) SA 564 (CPD) regarding the approval of building plans and a neighbour's view. The court held *inter alia* that an owner of land who uses his/her property in an ordinary and natural manner is not guilty of committing an *injuria* to other property owners.

²⁴ For more on environmental aspects see *Verstappen v Port Edward Town Board and Others* 1994 (3) SA 569 (D), the Environmental Conservation Act 73 of 1989 and Witbooi E "Obligations on property owners to control alien invasive vegetation on their land" *Butterworths Property Law Digest* March 2003 at 3.

²⁵ Refer to the Local Government: Municipal Systems Act 32 of 2000 ch 11 as amended by Act 40 of 2002 s 2(1).

²⁶ See the Systems Act s 109(2).

the municipality with legal representation where applicable. Such legal representation is limited to only two instances, however.²⁷

- where legal proceedings have been instituted against the employee or councillor as a result of any act or omission by that person in the exercise of his or her powers or the performance of his or her duties or
- where the employee or councillor has been summoned to attend any inquest or inquiry arising from the exercise of his or her powers or the performance of his or her duties.

It should be noted that employees or councillors are not automatically entitled to the legal representation mentioned above. The decision to provide for such representation lies with the municipal council. All legal assistance not addressed in the two instances above should be for the employee's or councillor's own account and should not be funded from the municipal/public purse.

21.4.3 Issues concerning evidence

The Systems Act specifically provides that in legal proceedings against a municipality a certificate which purports to be signed by a staff member of the municipality and which claims that the municipality used the best known or only or most practicable and available methods in exercising any of its powers or performing its functions must, on its mere production by any person, be accepted by a court as evidence of that fact.²⁸ It is further provided that a copy of the *Provincial Gazette* in which a by-law was published may, on its mere production in a court by any person, be used as evidence that that by-law was passed by a municipality concerned.²⁹

21.4.4 Fines, bail and the prosecution of offences

Under the new legal framework, a staff member of a municipality so authorised may institute criminal proceedings and conduct the prosecution in respect of a contravention of or failure to comply with a provision of

- a by-law or regulation of the municipality
- other legislation administered by the municipality or

²⁷ See the Systems Act s 109A(a)-(b).

²⁸ The Systems Act s 110.

²⁹ Refer to the Systems Act s 111. It is submitted, however, that such a situation should prevail only in instances where no contrary evidence is presented to a particular court.

- other legislation as determined by the National Director of Public Prosecutions in terms of section 22(8)(b) of the National Prosecuting Act of 1998.³⁰

It is also provided that fines and bails that were recovered in respect of offences or alleged offences referred to in item 2 of Schedule 4 to the Public Finance Management Act³¹ must be paid into the revenue fund of the municipality concerned.³²

21.4.5 Time of notices, payments and the service of documents and process

A payment may be made at a municipality only during the normal or extended office hours of a municipality, except when payment is made by electronic transfer or at an agency pay-point. These times also apply to when any notice or other document may be served on the municipality, including its council, other structures, functionaries or staff members in an official capacity. There are exceptions to this rule in urgent matters, however.³³ Any notice or other document that is served on a person in terms of the Systems Act or by a municipality in terms of any legislation is regarded as having been served when:

- it has been delivered to that person
- it has been left at that person's place of residence or business in the Republic of South Africa with a person apparently over the age of sixteen years
- it has been posted by registered or certified mail to that person's last known residential or business address in the Republic of South Africa and an acknowledgement of the posting thereof is obtained from the relevant postal service
- it has been served on a person's agent or representative in the Republic of South Africa in a manner provided for above if that person's address in the RSA is unknown
- it has been posted in a conspicuous place on the property or premises of the person to which it relates if that person's address or agent in the Republic of South Africa is unknown.³⁴

It is also provided that when any notice or other document must be authorised or served on the owner, occupier or holder of any property or right in any property, that it is sufficient if that person is described in the notice or document as the owner,

³⁰ A staff member may prosecute or conduct criminal proceedings only if so authorised in terms of the National Prosecuting Authority Act 32 of 1998 s 22(8)(f).

³¹ 1 of 1999.

³² See the Systems Act s 113.

³³ See the Systems Act s 114(a)-(b).

³⁴ See the Systems Act s 115(a)-(e) as amended by Act 6 of 2004 see 94.

occupier or holder of the property. In such cases it is not necessary to name the person specifically. Finally, any legal process is effectively and sufficiently served on a municipality when it is delivered to the municipal manager or a person in attendance at the municipal manager's office. Outside parties thus seeking to serve on a municipality documents of whatever nature should serve such documents on the office of the municipal manager.³⁵

A further important practical aspect concerning the institution of legal proceedings against a municipal council is the provision of the Limitation of Legal Proceedings (Provincial and Local Authorities) Act³⁶. According to this Act a notice must be sent to a municipality informing it of a claim against the municipality. According to section 2 of the Act such a notice/letter of demand must be sent to the council within 90 days of the date of the cause of action. After such notice, no formal summons may be issued against the municipality concerned, unless the claim has been rejected or a further 90 day period has lapsed. It must also be noted that the Act also requires that a claim prescribes against a council unless summons has been issued within 24 months since the occurrence of liability. Several case law precedents have been developed over such matters. See for example *Ntanga v Butterworth Municipality and another*³⁷ and also *East London Municipality v Abrahamse*.³⁸ In many instances the requirements of the Act were strictly enforced. Refer to *De Klerk en 'n ander v Groter Kroonstad Plaaslike Oorgangsraad*.³⁹ In *Provinsie van die Vrystaat v Williams No*⁴⁰ the Appellate Division confirmed that the term/word "liability" in the context of the Act has a wide meaning. Finally, the Constitutional Court in 2001 held that the Limitation of Legal Proceedings Act, which requires the specific notice within a short period of time and with limited scope for condonation for non-compliance, constitutes a material limitation of an individual's right of access to a court under section 34 of the Constitution and that such limitation could not be justified under section 36 of the Constitution. Accordingly, the court held that section 2(1)(a) of the Act was unconstitutional and invalid. See *Moise v Greater Germiston Transitional Local Council: Minister of Justice and Constitutional Development Intervening (Women's Legal Centre*

³⁵ Refer to the Systems Act s 115(2)-(3).

³⁶ 94 of 1970.

³⁷ 1995 (4) SA 437 (Tks).

³⁸ 1997 (4) SA 613 (SCA).

³⁹ 1999 (2) SA 870 (O).

⁴⁰ 2000 (3) SA 65 (SCA).

as *Amicus Curiae*).⁴¹ In a follow-up case, the Constitutional Court further held that the invalidation of section 2(1)(a) of the Act operated retrospectively to the moment the Constitution came into effect. Since the Constitution came into effect, the inconsistency of the Act has become evident and, as a matter of law, the provision of the Act has been a nullity since that date.⁴²

21.4.6 Public servitudes and the custody of documents

Similar to the situation under some of the former ordinances that affected local governments, the Systems Act now confirms that all public servitudes in favour of a municipality are under the control of the municipality. A municipality must further protect and enforce the rights of the local community arising from those servitudes.⁴³ It is also the responsibility of the municipal manager to take custody and control of all of a municipality's records and documents, unless where otherwise provided.⁴⁴

21.4.7 Restraint on transfer of property

All municipalities are directly involved in the process of transferring property (land) from one person or institution to another. Similarly to the South African Revenue Service, a municipality must provide a clearance certificate stating that all levies, duties or taxes payable to the municipality have been paid up to date before a particular property can be transferred. In order to protect a municipality, and thus also its public community, from losing valuable revenue for service already rendered, the Systems Act determines that a registrar of deeds may not register the transfer of property except on production to that Registrar of Deeds of a prescribed certificate which :

- was issued by the municipality or municipalities in which that property is situated and
- certifies that all amounts that became due in connection with that property for municipal service fees, surcharges on fees, property rates and other municipal taxes, levies and duties during the two years preceding the date of application for the certificate have been fully paid.⁴⁵

⁴¹ 2001 (4) SA 491 (CC).

⁴² Refer to *Ex parte Women's Legal Centre v Greater Germiston TLC* 2001 (4) SA 1288 (CC).

⁴³ See the Systems Act s 116.

⁴⁴ The Systems Act s 117.

⁴⁵ See the Systems Act s 118(1)(a)-(b). The certificate is valid for a period of 120 days from the date it was issued. The Act s 118(1A). This was also the position under some of the former provincial ordinance. Refer also to *Venter NO v Eastern Metro Substructure, Greater JHB TC* 1998 (3) SA

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In the case of a transfer of property by a trustee of an insolvent estate, the transfer and recovery of monies are subject to section 89 of the Insolvency Act.⁴⁶ To help secure municipal funds even more efficiently, it is specifically provided that an amount due for

- municipal service fees
- surcharges on fees
- property rates and other municipal taxes
- levies or duties

is a charge upon the property in connection with which the amount is owing and that such a claim enjoys preference over any mortgage bond registered against the property.⁴⁷ The requirement of a clearance certificate does not apply to a transfer from the national government, a provincial government or a municipality of a residential property which was financed with funds or loans made available by any of the three spheres of government, and when the vesting of ownership as a result of a conversion of land tenure rights into ownership in terms of the Upgrading of Land Tenure Rights Act of 1991.⁴⁸ However, municipalities are not precluded from collecting any amounts owed to them in respect of such a property at the time of the transfer or conversion.⁴⁹ Finally, the preference that is enjoyed over any mortgage bond does not apply to any amount referred to which became due before a transfer of a residential property or a conversion of land tenure rights into ownership.⁵⁰

Although the protection of municipal service fees, surcharges, property rates and other taxes or levies is not something new, its new statutory protection has been the

1076 (W). For an example of a certificate under s 118 see GN 686 as published in GG 24886 of 23 May 2003.

⁴⁶ 24 of 1936. S 89(4) provides that notwithstanding the provisions of any law which prohibited the transfer of any immovable property, unless any tax as defined in ss (5) due thereon had been paid, that law would not debar the trustee of an insolvent estate from transferring any immovable property in that estate for the purpose of liquidating the estate if he had paid the tax which might have been due on that property in respect of the periods mentioned in ss (1) and that no other preference would be accorded to any claim for such tax in respect of any other period. S 89(5) provided that, for the purposes of subss (1) and (4), 'tax' in relation to immovable property meant any amount payable periodically in respect of that property to the State or for the benefit of a provincial administration or to a body established under the authority of any law in discharge of a liability to make such periodical payments if that liability was an incident of the ownership of that property.

⁴⁷ See the Systems Act s 118(3).

⁴⁸ See Act 112 of 1991.

⁴⁹ The Systems Act s 118(4)(a)-(b).

⁵⁰ The Systems Act s 118(5).

focus of legal debate and even strong judicial challenge. In the matter between *Greater Johannesburg TMC v Galloway No and Others*⁵¹ the first respondent, a liquidator of a company, had sold immovable property belonging to the company to the second respondent. In order to proceed with the transfer of the property, the first respondent applied to the municipality/applicant for clearance figures in order to pay such and to obtain a clearance certificate in accordance with section 50 of the Local Government Ordinance.⁵² Upon receipt of the figures, the first respondent disputed certain amounts claimed by the council. The respondent also took the view that he was not required to pay the disputed levies/taxes by reason of section 89 of the Insolvency Act.⁵³ The court held that section 89(4) overrode the provisions of any other law which prohibited the transfer of any immovable property unless any tax defined under section 89(5) due on the property in question had been paid. The liquidator thus had to pay certain taxes. Any items prescribed by section 50 of the Ordinance which fell outside the definition of a tax set out in section 89(5) were not payable by the liquidator in order to obtain the clearance certificate.⁵⁴ The court further held that section 89(4) did not extend to water, electricity and refuse removal charges. Such items were not in respect of the property but were in respect of the agreements which had been entered into for the provision of such services and therefore in respect of the services themselves. Charges in respect of electricity, water and refuse removal were not in respect of the property and could not be recovered as a prerequisite before the clearance certificate was issued. The application by the council was accordingly dismissed.⁵⁵ A similar issue was decided in *Eastern Metropolitan Substructure of the Greater Johannesburg Transitional Council v Venter NO*.⁵⁶ The case concerned a liquidator of a close corporation who had paid to the local authority under protest certain amounts for basic water and sewerage charges. The respondent argued that such charges did not constitute taxes under section 89(1) and 89(5) of the Insolvency Act and that he was not obligated to pay such amounts in order to obtain a clearance certificate under section 50 of Ordi-

⁵¹ 1997 (1) SA 348 (W).

⁵² O 17 of 1939 (T) which provided that the transfer of land was not to be effected unless certain amounts due to the council had been paid.

⁵³ 24 of 1936.

⁵⁴ At 355-356.

⁵⁵ Refer to paras C-D at 360.

⁵⁶ 2001 (1) SA 360 (SCA).

nance 17 of 1939 (T). Rezoning fees under sections 48 and 63 of the Town Planning and Townships Ordinance 15 of 1986 (T) were also in issue. Contrary to the decision in *Greater JHB TMC v Galloway NO* above, the Supreme Court of Appeal held that there was no basis on which it could be contended that amounts not constituting taxes listed in section 50(1) of the Ordinance did not have to be paid by the respondent in order to obtain a clearance certificate. Although the amounts were not taxes, the council was entitled to withhold the clearance certificate until they were paid.⁵⁷ The court further held that once it had been accepted that the amounts were due and owing in terms of section 50, there was no legal basis for the amounts to be repaid to the respondent. Since the respondent wished to transfer the properties, he had to pay the amounts due in respect of the rezoning fee, and the basic water and sewerage charges so as to have the embargo created by section 50 lifted.⁵⁸ Section 118 of the Systems Act was also subjected to constitutional challenge. In *Geyser and another v Msunduzi Municipality and others*⁵⁹ it was argued by the applicant/owner of a property who was held liable by the respondent municipality for municipal service fees due on the property which the applicant leased to a tenant, that the charges were unconstitutional since they resulted in arbitrary destruction and deprivation of the property owner's rights under section 25 of the Constitution. The court held that although section 118 of the Act clearly envisaged deprivation of the property, the purpose of the deprivation was to facilitate debt recovery, which was a legitimate and important purpose essential for the economic viability and sustainability of municipalities in South Africa. There was thus a rational connection between the means employed and the desired result. The limitation on property owners' rights was reasonable and reflected a fair balance between public interest and the property owner's interest. Section 118 is thus not arbitrary and not inconsistent with the Constitution.⁶⁰ The court also held that municipal service fees were based on consumption and thus could not refer to rates on property. Such fees included charges for electricity and water consumption supplied to the owner/occupier of the property. The section also applied to all municipalities in the Republic, thus excluding incapacity in application. Notwithstanding the court's decision, some commentators have

⁵⁷ See paras D-F at 369.

⁵⁸ At paras B-C at 370.

⁵⁹ 2003 (5) SA 18 (N).

⁶⁰ Refer to paras A-D at 38-39.

argued that the obligation on owners to pay all outstanding arrears is contrary to the Constitution.⁶¹

21.4.8 Miscellaneous provisions

The Systems Act also provides for a few miscellaneous legal aspects.⁶² In the first place it is provided that a councillor who attempts to influence the municipal manager or any other staff member or even agent of a municipality not to enforce an obligation in terms of the law or a decision of the council is guilty of an offence and is on conviction liable to a fine or to imprisonment for a period not exceeding two years.⁶³ A person acceding to such an attempt is also guilty of an offence punishable with the same sanction. If a person is convicted of an offence and is subsequently sentenced to more than 12 months' imprisonment without the option of a fine, he/she is disqualified from remaining a councillor and cannot become a councillor of any municipality during a period of five years from the date of the conviction.⁶⁴

The minister concerned with local government is also authorised to make regulations on certain matters and to issue guidelines that are not inconsistent with the Act.⁶⁵

Finally, the Systems Act provides for certain transitional arrangements and the phasing in of the provisions of the Act itself. Under transitional arrangements, it is provided that any written agreement on the exercise of executive authority in an area of another municipality, which agreement existed immediately before the Act took effect, must be regarded as having been concluded in terms of the relevant provisions of the Systems Act.⁶⁶ The minister must also initiate steps for the rationalisation of existing national and provincial planning legislation applicable to municipalities in order to facilitate local development planning as an integrated concept within the system of co-operative government as is envisaged in section 41 of the Constitution. Mechanisms for facilitating co-ordination between sectoral regulation of local government matters must also be established.⁶⁷ In order to facilitate a smooth transition,

⁶¹ Refer to Kidson J "Rights of local government to collect service arrears" March (2002) *DR* at 8-9. The writer submits various arguments to explain why outstanding arrears are not payable.

⁶² See the Systems Act ch 12.

⁶³ The Systems Act s 119.

⁶⁴ The Systems Act s 119(4).

⁶⁵ See the Act s 120(1)-(7) as amended for more full particulars on the procedures and requirements relevant to the making of regulations and guidelines.

⁶⁶ See the Systems Act s 122(1) read with s 11(2).

⁶⁷ See the Systems Act s 122(2)(a)-(b).

the minister is authorised to phase in the various applications of the provisions of the Systems Act which place a financial or administrative burden on municipalities.⁶⁸

21.5 Conclusion

It seems obvious that the application of the law is of significant importance to all local government structures. The law in general and, more particularly, the law relating to municipal affairs form not only the basis on which all municipalities must function, but also set the scene within which municipalities are to fulfil and perform their new constitutional role and obligations. It is clear in this respect that a sound knowledge of all the relevant legal principles relating to local government matters is an essential requirement for legal advisors, private practitioners, local administrators and political office bearers alike.

⁶⁸ The Systems Act s 123.

Concluding remarks

22.1 Introduction

It is clear from the above that the third sphere of government has changed drastically from the order that was in place prior to 1994. The new supreme Constitution with its comprehensive Bill of Rights has set a new legal paradigm for municipal government. It is especially the founding values and specific municipal objects of the new constitutional dispensation that had an unprecedented impact.¹ Compliance with the new constitutional provisions is imperative whether that relates to legislative or executive actions or even the conduct of bodies or institutions within the state. The Constitution however only provides a basic constitutional framework. In many instances the basic framework had to be completed through the enactment of various national or provincial laws.²

In chapter one of this research it was stated that the aim of the research is two-fold. The first objective was to provide a systematic and comprehensive exposition of the new constitutional and other national legislative provisions relevant to the new system of local government. In this respect it is submitted that the preceding chapters do indeed achieve such an objective. Almost all legislative provisions relevant to local government have been systematically subdivided into the various chapters and have been grouped together according to their topics and relevance. It is submitted that the compilation and systemisation of the many legal requirements should indeed contribute to making the legal dispensation regarding local government law more accessible which in turn could enhance more research and debate in this often neglected albeit important field of law.

¹ Read s 1 of the Constitution. According to s 2 the Constitution is entrenched as the supreme law of the SA state and any law or conduct inconsistent with the Constitution is invalid. All the obligations imposed by the Constitution must be fulfilled.

² See again the provisions set out in ss 151(3), 154(1), 155(2) and (3), 157(2), 160(5) and 164 of the Constitution which specifically require either national or both national or provincial laws on issues directly relevant to local government matters.

The second aim was to evaluate the extent of compliance with the new local government legal system, to the key normative principles set out in the Constitution and which underpins the new legal government system. Such a evaluation can only be conducted after due regard to all the constitutional and subsequent national legislative requirements. In an effort to link the various preceding chapters together and to tie-up the research as a whole, a brief summary of the extent of compliance with the key constitutional requirements and prerequisites is provided in this conclusion. The summary follows the same chronological sequence as was provided for in the introductory chapter of this work.

22.2 Evaluating compliance with the key normative principles of the new local government legal dispensation

22.2.1 *Is the new local government legal dispensation non-racial and truly democratic?*

The new dispensation has undoubtedly overturned the segregation and apartheid policies of the past and has provided a platform for a uniform democratic local sphere of governance where municipal services are rendered for the benefit of all people. The confirmation within the supreme law of the South African state of *inter alia* the founding values of equality, democracy, freedom, non-racialism and non-sexism has created a strong foundation to ensure that all spheres of government are constitutionally obligated to ensure a non-racial and democratic government.

22.2.2 *Does the new nature, rights and duties of municipalities comply with the new constitutional vision?*

It was indicated above that the new local government system does not only provide local government with a distinctive legal nature, but also sets down clear and precise rights and duties for all local government structures.³ This is necessary to ensure local governments are empowered to fulfil their duties. The new system not only provides local authorities with the required foundation to act, but also incorporates constitutional values of accountability and public participation. These values are particularly promoted through legislative provisions which confirm that local government consists out of political, administrative and local community components. As such, the new legal framework should enhance and promote the underlying values

³ Read ss 4, 5 and 6 of the Municipal Structures Act together with s 156 of the Constitution.

that the Constitution demands.

22.2.3 *Municipal government and the principles of co-operative government*

The Constitution obligates all three spheres of government to comply with specific principles aimed at ensuring a system of co-operative federalism. All spheres have been allocated with specific functional activities. Although significant protection of such powers is provided for, many overlaps between the specified functions do occur. Such overlaps in turn again require proper co-operation between the spheres in order to fulfil their functions and responsibilities. In an effort to ensure such co-operation the Constitution determines various principles with which all spheres must comply.⁴ The new legal framework, *via* the Municipal Systems Act, specifically expands on the basic constitutional provisions and thus enhances the envisaged constitutional scheme.

22.2.4 *The establishment of a new system and structure for local government*

It is a specific constitutional obligation, that all former local governments had to be restructured and that new institutional models for local government structures had to be provided for. Furthermore, the whole territory of the Republic had to be included in the jurisdiction of a specific municipal authority.⁵ The new legal dispensation indeed complies with these constitutional requirements. In the first instance, the entire territory of the South African state falls within the jurisdiction of a demarcated municipal government. Even areas that are not viable to have their own direct local government, ie district management areas, fall under the control of a district municipality within that area. Secondly, the Municipal Structures Act provides for various new institutional models of local government. Apart from the constitutionally defined categories of municipalities the act provides for the establishment of various models of municipal types by combining various municipal systems.⁶

In total five systems have been created. Three are so-called executive systems whilst two are participatory systems. Since the powers, functions and circumstances of municipalities differ it is submitted that the various combination possibilities indeed should be able to cater for the different needs and responsibilities of all municipalities. The new legal framework further aims not only to achieve more effective execu

⁴ Refer to ss 40 and 41 of the Constitution.

⁵ See s 151 of the Constitution.

⁶ See s 7 of the Structures Act.

tive functioning but also to ensure public involvement and participation, which again should enhance the underlying values of the Constitution. Although a clear division of the roles and responsibilities of the various types of municipalities has been determined, there seems to be some uncertainty in practise. Uncertainty especially exists relating to the division of powers and functions between local municipalities and their relevant district municipalities. Notwithstanding such difficulties, the new legislative provisions have ensured that all municipal institutions have been re-established and all former municipal authorities have been replaced by newly transformed local authorities. Municipal boundaries were re-determined and many municipalities were amalgamated into new enlarged and supposedly more effective institutions.

A significant number of municipalities however still face enormous challenges relating to their new structures and boundaries and the amalgamation of municipal administrations and personnel. Further legal directions are needed to address some of these challenges more effectively.

22.2.5 Confirmation of new municipal boundaries

It is clear from the new constitutional framework, that municipal boundaries had to be re-determined. This requirement was specifically fulfilled *via* the Municipal Demarcation Act which established an independent Municipal Demarcation Board.⁷ This board has demarcated all municipal boundaries and has fulfilled the requirement of creating a system of wall to wall municipal government in South Africa. Under the Constitution, national legislation had to determine the criteria and procedures to determine municipal boundaries by an independent authority.⁸ Two national acts, the Local Government: Municipal Structures Act and the Local Government: Municipal Demarcation Act were enacted.⁹ Together these two acts, address the overall constitutional obligations towards municipal boundaries.

Boundaries are important to ensure local governments can provide municipal services in an equitable and sustainable manner. It would seem that the new laws indeed comply and fulfil the constitutional demands. It should be noted however that the determination and internal delimitation of municipal boundaries are not once off

⁷ Read ss 151(1) and 155(3)(b) of the Constitution together with the provisions of Act 27 of 1998.

⁸ S 155(3)(b) of the Constitution.

⁹ 117 of 1998 and 27 of 1998.

exercises but are continuous in nature. Regular evaluation of municipal boundaries is thus required. It is also notable that after the demarcation process, the number of official local authorities were reduced from over 800 to 284.¹⁰ The demarcation process thus significantly rationalized local government structures. Such rationalization was needed under the Constitution to create a system of local governance that is effective and efficient and that would ensure the achievement of the objects of local government as set out under the Constitution.

22.2.6 Adhering to the founding values and the Bill of Rights

The Constitution specifically requires radical changes to the composition and election of municipal councils. In essence the new local government system had to be redesigned to ensure and achieve compliance to the Constitution's founding values and a truly democratic state. In order to complete such a system, many new changes had to be affected. On a closer evaluation, it seems acceptable to conclude that the new legal framework, indeed completes the basic framework of the Constitution regarding the composition and election of municipal councils. Local governments are now truly democratic spheres of government.

The new system is unique in some instances. For example, although the term of local governments is now similar to national or provincial governments, local governments are composed according to a electoral system that provides for a combination of proportional representation and constituency based electoral systems.¹¹ The unique features have been included to enhance the unique features of local governments and to ensure better representation and accountability. It seems as if the new legal system is well equipped to fulfil the broad constitutional requirements.

22.2.7 Recognising the role of traditional leadership

One area where the new local government legal dispensation still seems to lack clear direction is with regards to the role and involvement of traditional leaders in local government structures. Although the institution of traditional leaders is constitutionally recognised and protected,¹² the precise role of traditional leaders, specially in local government, has not been properly defined. This problem is confirmed by na-

¹⁰ The number of 284 is composed out of 6 Metropolitan municipalities, 47 District municipalities and 231 Local municipalities. For more detail refer to www.info.gov.za/localgovernment visited on 18/07/2005.

¹¹ Read ss 157(1) and (2)(a)-(b) of the Constitution.

¹² See ss 211 and 212 of the Constitution.

tional government, which has embarked on new policy and legislative initiatives aimed at clarifying the current uncertainties.¹³ Traditional leaders form an important part of traditional African cultures and structures and they should not only be included in municipal decision-making processes, but they can play a positive role in ensuring the ultimate success of especially rural municipalities.

The Constitution however only creates three spheres of government and allocates powers or authority only to such spheres and not to traditional leaders. One can thus argue, that unless a constitutional amendment is carried through, traditional leaders will be subjected to the authority of the local governments in which area such leaders fall. Since traditional leaders play an important role in maintaining traditional African customs, their roles should thus be more clearly defined. In view of the fact that the Constitution is the supreme law of the state, the role and functions of traditional leaders must comply with the Constitution. Traditional leaders are thus not autonomous institutions but function within the broad constitutional system. A strong need exists for co-operation and consultation between traditional leaders and local government structures. Clear national guidelines on such issues should ensure positive co-operation between the two institutions. Such legislative requirements are urgently needed.

22.2.8 The division of the powers and functions between the three spheres of government

Under the Constitution, local government is not only recognised as distinctive and autonomous sphere of government but the Constitution also determines the specific powers and functions of municipal governments. Such powers and functions are thus constitutionally entrenched and cannot be taken away unless constitutional amendments are executed.¹⁴ Local government powers are however not absolute, and are subject to national and provincial laws. In essence municipal powers and functions must be exercised to fulfil constitutional objectives and developmental duties. Under the constitutional framework, both the Structures Act and the Systems Act expand upon municipal powers and functions. It is of interest to note that within the new constitutional dispensation, local government powers are regarded as original pow-

¹³ See the Traditional Leadership and Governance Framework Act 41 of 2003.

¹⁴ Read s 156 together with parts B of Sch 4 and 5 of the Constitution.

ers.¹⁵ The Constitution does however not directly distinguish between the powers and functions of the different categories of municipalities *inter se*. Although it is constitutionally envisaged that a proper division of municipal powers should be made, such division had to be conducted in terms of national legislation.¹⁶ Since category A or Metropolitan councils have exclusive executive and legislative powers, the division is only relevant between Local Council and their relevant District Councils. This division is specifically provided under the Local Government: Municipal Structures Act.¹⁷ Powers not specifically allocated to a district will vest in the local municipality.

It is thus submitted that the new legal framework indeed complies to the broad constitutional requirements regarding the identification of municipal powers and functions and the division of such powers and functions between category B and C municipalities. Assignment of powers or functions are also permitted, and it is regulated through provisions set out in the Systems Act.¹⁸ The new system also provides for municipal financial powers. The current system however still faces problems relating to old order laws that are still applicable and new proposals that have not yet materialized. Although the national legislative framework has been enacted, both provincial and even municipal laws are needed to complete the overall legal framework.

22.2.9 Evaluating the new legal rules dealing with internal mechanisms and municipal leadership

It is an obvious fact that municipal governments are becoming more and more complex in comparison with their predecessors from yester year. Such complexities and duties require an effective, committed and educated leadership. On evaluation of the new legal framework, it would seem as if the new legal rules indeed support and facilitate the creation of such internal procedures and functions. The new system provides for various leadership options depending on the circumstances relevant in each particular municipal jurisdiction. To enhance and regulate municipal leadership,

¹⁵ See *Fedsure Life Assurance v Greater JHB TMC* 1999 (1) SA 3741 (CC).

¹⁶ According to s 155(3)(c) the Constitution determines the following: “[S]ubject to section 229, [National Legislation must] make provision for an appropriate division of powers and functions between municipalities when an area has municipalities of both category B and category C. A division of powers and functions between a category B municipality and a category C municipality may differ from the division of powers and functions between another category B municipality and that category C municipality”.

¹⁷ See ss 83-84 of the Systems Act.

¹⁸ See ss 8-9 of the Systems Act.

the Constitution directly regulates the internal procedures of municipal councils.¹⁹ These requirements are indispensable for effective municipal decision-making and the achievement of municipal goals and duties.

Both the Systems and the Structures Acts specifically expand on the basic constitutional provisions and thereby support and enhance the constitutional vision. Since the functioning of a local government is largely dependant on the effective exercise of functions, the new legal dispensation provides for specific codes of conduct for both political office bearers and also municipal administrative personnel.²⁰ It is thus submitted that the new legal provisions indeed have a significant role in regulating and controlling internal municipal functioning. Although the framework is extensive, regular overview should be employed and swift legal changes could be enacted to rectify or expand on existing rules in order to enhance or comply with practical problems.

22.2.10 Ensuring sustainable municipal service delivery

The new legal dispensation for local government also addresses the important aspect of service delivery and identifies various basic municipal services and functional activities. It must be remembered that the main objective/reason for existence of local governments is to provide sustainable and effective municipal services to local residents. Without such service delivery, local settlements cannot be sustained and the overall governmental structure of the state will be placed in jeopardy. The new system demands a system for service delivery that is accessible, simple, affordable, of high quality with incorporation of the values of accountability, sustainability and value for money.²¹

In compliance with the constitutional prerequisites, the Systems Act determines specific duties and requirements for all local governments in respect of municipal service provision and related aspects.²² The act is however silent on which mechanism municipal councils should use to achieve and comply with the abovementioned requirements. Municipal councils must put their own policies and programmes in place and should be monitored and controlled by the two higher spheres. Possible expansion on the current legal regulation could enhance better achievement of the

¹⁹ See s 160 of the Constitution.

²⁰ Refer to Sch's 1 and 2 of the Municipal Systems Act.

²¹ Read again ss 1, 152 and 153 of the Constitution.

²² See s 73 of the Systems Act.

mentioned goals. Municipal councils must also adopt tariff policies for the levying of fees for municipal services.²³ Services can be provided via internal mechanisms or external ones.²⁴ Although municipal services per se are not absolutely defined and other services can also be assigned to municipalities, the Constitution together with the new laws, determines what should be regarded as basic municipal services. The achievement and compliance with the constitutional demand on services, will largely depend on how local governments structure their policies and also to what extent effective oversight by national/provincial governments are provided.

22.2.11 Establishing a new local government personnel corps

In relation to municipal staff the Constitution determines that all municipal councils can employ personnel that are necessary for the effective performance of their functions.²⁵ Local governments are thus empowered to employ such staff members that are needed to fulfil their obligations and duties. The new requirements have specifically been incorporated to enhance the organisational efficiency of municipalities but vigorous training of personnel is required. Municipal personnel matters should not be seen in isolation but together with other labour related requirements that are set out in other laws.²⁶ The new dispensation determines that the municipal manager is the head of the municipal administration and as such has been given a wide range of duties and responsibilities. Such a person is also the highest accountable official.²⁷

Employment, especially of senior staff is linked to new performance standards and evaluations. Senior staff are mostly employed for fix periods only²⁸ and a comprehensive code of conduct for staff members has been included.²⁹ Continuous training and support is however a prerequisite for effective local government administrations. It is submitted that old order bureaucracies should be avoided and regular evaluation of the organizational structures of municipalities must be undertaken. Municipal staff matters should further be linked to the requirements of the public administration and guidelines on financial management. All in all it appears as if the basic constitutional

²³ S 74 of the Systems Act.

²⁴ Ss 26-81 of the Systems Act.

²⁵ S 160(1)(c) read with s 156(5) of the Constitution.

²⁶ Read for example acts such as the Labour Relations Act 66 of 1995 and also the Basic Conditions of Employment Act 75 of 1997.

²⁷ See s 55 of the Systems Act.

²⁸ See s 7 of the Systems Act.

²⁹ Refer to Sch 2 of the Systems Act.

demands are met and that local government administrations and personnel structures are adequately empowered to achieve and fulfil their important constitutional obligations.

22.2.12 Regulation of municipal fiscal management and fiscal powers

Mention was made above that municipal administrations and staff members are partly regulated in terms of a new and reformed legislative framework dealing with municipal finance and fiscal management. Without a proper financial system and effective control mechanisms, local governments will not be able to fulfil their obligations. Financial powers and proper fiscal management are essential in the new local government dispensation. From the chapter on municipal finance discussed above it becomes obvious that an entire new legal framework has been established. Not only does the Constitution determine basic fiscal requirements and obligations, but also that new national legislative provisions are authorized to create a uniform system for property tax assessments and recovery as well as a comprehensive system aimed at regulating municipal fiscal management.³⁰ It is suggested that the new dispensation indeed fulfils the constitutional demands but that the system should be constantly monitored to ensure effectiveness and efficiency. Swift amendments should be considered to better and regulate the new system should new financial challenges arise. Financial discipline is a key component for the success of local governments and careful and continuous oversight by national/provincial governments is essential. It is submitted that the new dispensation, if applied correctly, indeed should enhance and ensure effective municipal financial capacity and fiscal management.

22.2.13 Compliance to new vision for public administration

It was mentioned above that the Constitution sets various requirements dealing with the public administration and other related matters. The new legal system supports such requirements and seeks to adhere and advance to the supreme constitutional demands.³¹ Apart from the provisions dealing with the public administration, various other requirements such as principles and provisions of performance management, capacity building, municipal accountability and public participation have been included in the new system. Such provisions are aimed at fulfilling the new constitu-

³⁰ 56 of 2003.

³¹ See ss 195, 196, 50 and 51 of the Systems Act.

tional values set out in the founding provisions of our supreme law.³² The new dispensation aims at ensuring a more customer orientated public service with strict requirements of accountability and control. One can indeed argue that a sound foundation for a general people orientated local government system has been established, which system should not only ensure constitutional compliance but also a more brighter future for all South Africans.

22.2.14 Adhering to the principles of municipal development, planning, performance management, capacity building and public participation

The new legal dispensation also incorporates significant provisions relating to municipal development planning and the regulation of basic legal matters. Important aspects relating to municipal planning have been decentralized to municipal governments, and although municipal planning is a functional area of concurrent national and provincial legislative competence, all municipalities are constitutionally obligated to ensure proper and effective municipal development planning. Proper municipal planning is needed to structure and manage municipal administrations in such a way as to give priority to the basic needs of their communities. Municipalities are also obligated to promote the social and economic development of their communities and to ensure a safe and healthy environment. The Constitution specifically requires national laws to provide an overarching set of regulatory provisions to enable all municipalities to create and cater for basic planning needs. This requirement was partly met in the provisions of the Systems Act.³³ Integrated Development Planning is now a core component of the new legal framework and should significantly allow municipalities to fulfil their developmental responsibilities. Municipal Integrated Development Planning should however be continuously monitored and adjusted to keep abreast with local changes and circumstances.

Since municipalities are established throughout the territory of South Africa and since they have a large impact on local communities, many general legal rules are applicable to local government administrations. Apart from a general understanding and knowledge of the different legal fields relevant to the South African legal system, various unique legal provisions are also highlighted. Such unique legal matters pertaining to local government only have been identified in national legislation and is

³² See s 1 of the Constitution read together with ch 4 and 6 of the Systems Act.

³³ See ss 24-29 of the Systems Act.

directly regulated in terms of the Systems Act.³⁴ As a sphere of government, local governments are faced with general legal matters on a daily basis, and as such a complete understanding and compliance with the law of the state in general is a prerequisite for municipalities to be able to perform their functions and achieve their goals.

22.2.15 *Evaluating the new status and autonomy of local government institutions*

One of the more distinct features of the new face of local government in South Africa is the fact that it now has a new enhanced and protected status and autonomy. All local government institutions have been confirmed as a distinct and interdependent sphere of government.³⁵ Notwithstanding the constitutional confirmation of the new status and subsequent autonomy of local governments, such autonomy is not absolute and is often subjected to the oversight and control of both the national and provincial spheres of government.³⁶ In light of the constitutional provisions, the autonomy of municipalities is regarded as a limited or restricted autonomy. The crux of the limitation lies in the confirmation within the Constitution itself in that municipalities are in some instances subjected to national and provincial legislation. Any encroachment on the autonomy of a local authority must be justified and permitted under the Constitution or else it would be unconstitutional and invalid. Since the Constitution itself entrenches only a limited autonomy for local government, any dispute relating to such an issue should be resolved with reference and interpretation of the overall constitutional scheme. Many aspects could have an impact in such cases, for example the Bill of Rights, the principles of co-operative government or even the requirements dealing with government finance. It is however submitted that the limited autonomy of local government should not detract from the new role local governments are to play in our new constitutional dispensation.

22.2.16 *Achieving the five core objects of local government*

Arguably the most important function of a local authority, seen from a local community point view, is the provision of sustainable service delivery. This core function of all municipal governments has been at the forefront of municipal development, not

³⁴ See ch 11 of the Act for more detail.

³⁵ Refer to s 40 of the Constitution.

³⁶ See s 151(3) and (4) of the Constitution.

only in the South African context, but all over the world. It was explained above that the main reason for the existence of local authorities was to ensure and secure sustainable provision of certain municipal services to local communities. The most common problem facing local governments today is the lack or insufficient provision of such services. Since the provision of services is such a fundamental function of a local government, the new constitutional dispensation has specifically incorporated such a function within the new legal framework.³⁷ The provision of municipal services however is not the only important municipal object and therefore the Constitution has identified and entrenched five core objects of the new local government dispensation.³⁸ All municipalities are obligated to strive, within their financial and administrative capacities, to achieve the five objects mentioned above. Although the new legal framework should facilitate and enhance the fulfilment of the core objects of local government, it is ultimately left to municipal governments themselves to ensure that they structure their finances and administrations in a manner that will achieve the objects. Many municipalities in South Africa are not complying with this important constitutional requirement and subsequently many are not providing sustainable services and are not achieving the lawful expectations of local communities. It is this writer's submission that the new legal framework indeed fosters and ensures a legal order within which municipalities should be able to achieve their goals and objects. One should however not lose sight of the important role both national and provincial governments must play to ensure through oversight and control measures, that municipalities are indeed making positive progress in the achievement of local government objectives.

22.2.17 The principle of creating a local government dispensation that is developmentally orientated

Apart from the core objects of local government the new constitutional scheme also requires all municipalities to be developmentally orientated regarding their duties.³⁹ In essence, the developmental approach of local government entails the improvement of the quality of life of all municipal communities. In order to achieve the obliga-

³⁷ S 152(1)(b) of the Constitution states that one of the objects of local government is to ensure the provision of services to *local* communities in a sustainable manner.

³⁸ Refer to s 152(1)(a)-(e) of the Constitution. The objects are: democratic and accountable governance, provision of services, promotion of social and economic development, promotion of a safe and healthy environment and lastly the encouragement of public participation in municipal matters.

³⁹ See s 153 of the Constitution.

tion of being developmental in nature, all municipalities are obligated to do two things: (a) they must structure and manage their administrations and budgeting/planning processes in such a way as to give priority to the basic needs of their respective communities and thereby help to promote the social and economic development of such communities; (b) they must participate in national and provincial development programmes.⁴⁰ In view of the new legal system for local government, which includes aspects such as co-operative government and the new internal municipal structures and procedures, it is again writers submission that the new legal dispensation indeed caters and fosters a local government system where developmental duties and objects can be realised. Success however will ultimately depend on the manner in which municipalities themselves structure and manage their institutions in order to achieve such duties at best.

22.3 Conclusion

It is writer's overall conclusion that the new legal dispensation relevant to local government institutions of South Africa, as was created within the general constitutional framework, not only complies with the overall constitutional demands, but if correctly applied and if the envisaged support and oversight is provided, should indeed succeed in steering local government to be a more developmental and more people orientated sphere of local government. A broad and seemingly effective legal system has been created to allow and ensure that municipalities can achieve their specified constitutional duties and objects. The new dispensation not only seems to cover all necessary components of a successful legal dispensation but also provides for various mechanisms to ensure proper control and oversight. Many commentators have in the recent years suggested that both the two higher spheres of government were dragging their feet in completing the legal system for local government, and that especially national government has failed to timeously fulfil its constitutional obligations. In view of the extent and content of the new legal system and upon close evaluation of all the new laws that were enacted, one can however understand that the completion of the new system was not as elementary as many initially believed. It is this writers opinion that the new established legal system indeed signifies a monumental advancement in the creation of an effective and supported municipal government in the new South African constitutional state.

⁴⁰ See s 153(a)-(b) of the Constitution.

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