

FINANCIAL ARRANGEMENTS FOR THE NEW MUNICIPALITIES:

GUIDELINES FOR THE TRANSITIONAL PHASE

The establishment of new municipalities is on our doorstep and it is crucial that certain financial and other related issues be addressed as a matter of extreme urgency. This challenge must be faced in an organised manner and necessary steps must be taken to ensure smooth transformation and restructuring. In this document a number of issues relating to the financial arrangements during the transitional phase will be highlighted and some guidelines suggested.

Administrative units

The first issue to be addressed is the administrative units that will be formed in the place of the disestablished municipalities. In terms of the Structures Amendment Act 33 of 2000, the staff members transferred from the existing municipality to the superseding municipality form an administrative unit that functions as such until the superseding municipality has established a staff structure and has appointed staff to positions on that staff structure. Such an administrative unit functions under the control of the municipal manager or acting municipal manager of the superseding municipality.

An administrative unit is therefore a disestablished council's administrative arm, which must continue with service delivery as if demarcation did not take place. This interim measure is to ensure that all areas are smoothly run in order not to impact negatively on service delivery. Further to this, it is to ensure that all staff members know what is expected of them on the effective date. It must be understood that this is an interim measure, and the situation can not be seen as to keep the old in place, but rather to give the new councillors the opportunity to get the ship sailing after they come into office.

The administrative unit is not a legal persona and can only operate as an agent for the new council. They will perform their duties and only operate as a "trading as entity" of the

new council. The administrative units in operation should note on their respective stationery and letter heads that they are *trading as* a business under the new council.

VAT registration

The new council must obtain a VAT registration number as soon as possible after the effective date. The acting municipal manager should see to this. It is important to note that with effect from 1 November 2000, the South African Revenue Services (SARS) will withdraw the input based method.

Administrative units must ensure that they notify the SARS of their intention to trade as a unit under the new council, and they should adhere to the withdrawal notice of SARS. Administrative units can therefore continue with business as usual if they have informed SARS. The new council must be informed of this as well as of the type of VAT registration and the VAT number.

Financial statements

Financial statements must be drawn for all the administrative units as at the end of June 2001 (Guideline from the Department of Finance.) The current CEO and Chief Financial Officer should sign such statements, but the acting municipal manager should countersign as well. It is advisable that an amalgamated set of statements be drawn for the new council as soon as it is possible after year-end.

Budget

The municipal manager is the accounting officer and it is suggested that the budget office be situated at the offices of the acting municipal manager until the new council confirms a final location.

The revision of the current budgets (2000 / 2001) of the existing councils is the first step that should be taken.

This process will entail the amalgamation of the budgets of the existing councils in the area of the new council as well as the revision thereof if necessary. An amalgamated budget as described above should be drafted and be submitted to the new council for acceptance. It should be noted that in some cases such a budget could be changed specifically where administrative units would no longer need specific allocations in their respective budgets. This could include councillor allowances, which will be paid by the new council. Other general expenditure of an administrative unit could also be "transferred" to the new council.

The effects of demarcation on the budgets of existing municipalities not fully incorporated into the new council's area should form part of the report that must be submitted as well as how financial implications are taken care of.

The financial administration of councillor remuneration must be centralised at the offices of the acting municipal manager from the effective date until the new council determines a final office.

Details of budget votes, as applicable at the existing councils, should be submitted within seven days after the effective date to the acting municipal manager entailing the following:

- detailed description of the vote;
- budgeted amount;
- actual expenditure up to 5 December 2000; and
- remaining balance.

The following votes could be used as a guide of the possible votes that should be "transferred" to the new council:

- marketing;
- transformation issues;
- subsistence and travel allowances for councillors;
- conference fees for councillors;
- civic functions;
- ad hoc requests;
- community requests;

- overseas tours;
- strategic planning;
- mayoral functions;
- allowances with regards to general purposes for the mayor and deputy mayor;
- corporate gifts; and
- council contributions to medical aid, pension, cellular phones, transport and any other allowance for councillors.

It is important to note that the new council will have control over the budgets in its area of jurisdiction, and administrative units will not be able to operate in isolation.

All councils should stay within their respective budget limits, and where any increases are necessary, the National Department of Finance should be notified.

It is important to note that the new council will have control over the budgets in its area of jurisdiction, and administrative units will not be able to operate in isolation. The acting municipal manager is the accounting officer and a proper reporting system on the budget and financials of the existing councils should be put in place.

A new budget must be drafted for the new council for the 2001 / 2002 financial year. This might imply that administrative units be requested to draft their respective budgets which could be amalgamated at a later stage before finalisation.

To comply with legislation, the budget for the new

council should be drafted to include the following:

- actual revenue and expenditure for the year preceding the previous financial year;
- projected revenue and expenditure for the previous year;
- estimates for the budget year; and
- provision for possible future multi-year budgets.

The following budgets should be drafted:

- operational budget;
- capital budget;
- vehicle budget; and
- salary budget.

A five year capital program for the 2001 / 2002 should also be compiled.

Local authorities should start as soon as possible to compile the new budgets. It is advisable to compile the salary budget with only the current filled positions and current salary levels, if a new human resource structure is not available in the new council.

Cash management

It is the duty of the administrative unit to operate within the disestablished municipality's cash flow constraints. It is important to note that an administrative unit's performance in this regard would have an impact on the total area of the new council. A cash management plan must also be drafted for the entire area. The necessary steps should be taken to ensure that the new council does not experience a negative cash flow.

Quarterly reports in terms of the Regulations Concerning Financial Reporting by Municipalities should be submitted to the new council, and excess expenditure on operating and capital budget votes should only be allowed with a corresponding saving.

Cash flows should be drafted to ensure that it caters for all the operating and other expenditure such as the repayment of loans. The new council on a macro basis should do investments of any surpluses. If the administrative units are allowed to invest surpluses, a proper system of control should be implemented not allowing new investments without taking the cash situation of the new council in consideration. Risk should be taken into consideration and it is advisable that investments be made with A(1) rated institutions only.

Debtor administration

It should be noted in general that a process be started to address tariffs in the new council's area, in order to facilitate the budget process. The new council should be informed of the current tariffs for water, electricity, sewer and refuse. It should be noted that in some instances certain tariffs might change. This, however, is not applicable to property rates, which is a year tariff.

It is advisable to advertise that administrative units are trading as the new council and that the tariffs as promulgated by the disestablished councils will remain in place. It must

It is noted that tariffs for the new council or the 2001 / 2002 financial year must be promulgated in time for the levying hereof.

Banking arrangements

It is important that interim arrangements be made with regard to bank accounts of disestablished municipalities. To arrange a smooth transition the current bank accounts of old councils must stay open.

The banking institution where the bank account is kept must be informed that the administrative unit functions as an entity trading as the new council. This arrangement should be kept until the new council changes it. The new council is the successor in law, and the disestablished council can not operate without the knowledge of the new council. It is therefore advisable that the new council is informed of such interim arrangement. Signatory powers to sign cheques must be retained by the current officials within the administrative unit, though this must form part of the report to the new council as a recommendation. It is important to note that the new council can change this recommendation.

The new council should open its own bank account as soon as possible in order to operate.

Insurance

The disestablished councils will have their own insurance in place and the new council should inform these insurers of the new dispensation. It is important that the new council obtain insurance for that portion of assets transferred that might not be insured. It is advisable that the new council amalgamates the various insurance portfolios into one as soon as possible in order to save funds, though it can remain with the administrative units until the new council decides to change.

Asset register

The asset register of the disestablished councils must be kept in place and up to date. Where assets were transferred to other councils, it must be addressed in the register as soon as possible after the effective date. It is further advisable that the administrative head keep his or her responsibilities in so far as the accountability thereof is concerned.

This should be noted by the new council, and it can change such arrangement whenever possible. It is recommended that the new council performs a complete audit of all assets transferred to it not later than 30 June 2001.

Payroll administration

With regard to payroll administration it is important that the administrative units continue to pay their respective employees as prior to the elections and on the same salary scales. This is an interim situation until the new council decides to change it. It is important to inform the new council with regard to this interim measure. It is crucial that the payroll is not altered, because it is only the new council that can appoint new employees. The new council must do any statutory registration with regard to payroll administration. The administrative units must ensure that they inform all these bodies that they will be

trading as the new council. It is important that the new council uses the current computer software packages of the administrative units until an IT strategy can be formulated for the new council.

Stores

Issuing of stock must continue after the effective date in order not to slow down service delivery. All stock items in the stores of the disestablished councils in the area of the new council should be audited as soon as possible in order to establish the stock value. When a complete audit has been performed it is advisable that all administrative units compile a combined report to the new council. It is advisable that when pur-

chasing stock a administrative unit should determine whether such items is available at any other store in the new municipality in order not to keep unnecessary stock levels within the new council area. If stock is transferred to another administrative unit it is important that the necessary procedures are followed and that proper accounting be performed. It is advisable that the keeping of stock becomes a centralised function where possible, with depots located across the area.

Affirmative procurement policy should be revised in order to have a common policy in the new council's area, but, until such time, the existing policies of administrative units must be used administratively. All clients of the existing councils should be informed that the administrative unit is "a trading as" concern, and the new council should enter into new agreements as soon as it is possible. Existing agreements must be kept in place until changed by a new council resolution.

Information technology

Information technology is the very heart of the existence of a municipality and no council should rush into a situation that might render chaos in the administration of the municipality. It is advisable to keep existing systems in place rather than to try and centralise existing systems which might have a negative impact on the new council. The above does not exclude that a proper study be undertaken in order to amalgamate IT functions in the new council's area.

Conclusion

This document is merely a guideline and it is possible that some issues might not have been addressed. The intention of this document is only to assist the various municipalities with regard to the transitional arrangements. It is also important to note that this document was not drafted to cater for unique situations, but as a general guide to all municipalities.

It is advisable to advertise that administrative units are trading as the new council and that the tariffs as promulgated by the disestablished councils will remain in place.

Ben Dorfling
Member of Special Task Team
for the Establishment of
Municipalities
DPLG Pretoria