

# **NATIONAL COUNCIL OF PROVINCES**

## **QUESTION FOR ORAL REPLY**

### **QUESTION NUMBER 8**

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#### **MR Z S KOLWENI TO ASK THE MINISTER OF FINANCE:**

- (1) Whether each municipality has established a Budget and Treasury Office (BTO) as required by section 80 of the Local Government: Municipal Finance Management Act, Act 56 of 2003; if not, why not; if so, what are the relevant details;
- (2) What cost implication does the implementation of the above-mentioned section have for municipalities? **C26E**

#### **REPLY:**

- (1) The implementation of the Municipal Financial Management Act (MFMA) is being phased in over a few years, including section 80 requiring municipalities to establish a Budget and Treasury Office (BTO). The phasing in of this section takes into account the capacity of a municipality, and has been delayed until 1 July 2005 for high and medium capacity municipalities, and until 1 July 2006 for low capacity municipalities.

Given that this section has not taken effect, municipalities are still in the process of preparing to comply with setting up a Budget and Treasury Office. However, many municipalities already have separate finance or Treasury departments within their administration, responsible for preparing budgets, monitoring income and expenditure, preparing financial statements, etc. These municipalities will merely rename and expand their financial departments to be their Budget and Treasury Office.

An initial survey undertaken by the National Treasury in February 2004, prior to implementation of the MFMA, indicated that 70% of municipalities had already established a Budget and Treasury Office by February 2004. 14% indicated that they would comply by 1 July 2004, and 16% were unable to establish an office prior to 1 July 2004.

The challenge for all municipalities is not in setting up a Budget and Treasury Office, but in using such an office to modernize and improve

the quality of financial management and budgeting within the municipality.

- (2) The member's question relating to the cost of establishing and maintaining a Budget and Treasury Office is not possible to answer, as it varies from one municipality to another and depends on a number of different factors, including number of staff, remuneration levels as well as infrastructure and systems utilised. Neither can the benefits or costs of implementing specific aspects of the MFMA really be costed, as municipalities generally do not have separate cost centers. Given that most municipalities have a Finance or Treasury department, it is not anticipated that the establishment of a Budget and Treasury Office should impose significant additional costs on any municipality. However, the overall benefit of the MFMA will be measured in sound financial practices and improved service delivery to all citizens.