PROVINSIALE TESOURIE • PROVINCIAL TREASURY • UNONDYEBO WEPHONDO

WES-KAAP WESTERN CAPE INTSHONA KOLONI

Verwysing
Reference
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TREASURY CIRCULAR NO. 23/2006

THE PREMIER

THE MINISTER OF AGRICULTURE
THE MINISTER OF COMMUNITY SAFETY
THE MINISTER OF CULTURAL AFFAIRS, SPORT AND RECREATION
THE MINISTER OF EDUCATION
THE MINISTER OF ENVIRONMENT, PLANNING AND ECONOMIC DEVELOPMENT
THE MINISTER OF FINANCE AND TOURISM
THE MINISTER OF HEALTH
THE MINISTER OF LOCAL GOVERNMENT AND HOUSING
THE MINISTER OF SOCIAL SERVICES AND POVERTY ALLEVIATION
THE MINISTER OF TRANSPORT AND PUBLIC WORKS

THE SPEAKER: PROVINCIAL PARLIAMENT
THE DEPUTY SPEAKER: PROVINCIAL PARLIAMENT

For information

ALL OTHER MEMBERS OF PARLIAMENT

THE ACCOUNTING OFFICER: VOTE 1: PREMIER (DR GA LAWRENCE)
THE ACCOUNTING OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (MR R HINDLEY) (ACTING)
THE ACCOUNTING OFFICER: VOTE 3: PROVINCIAL TREASURY (DR JC STEGMANN)
THE ACCOUNTING OFFICER: VOTE 4: COMMUNITY SAFETY (MR M DELIWE)
THE ACCOUNTING OFFICER: VOTE 5: EDUCATION (MR RB SWARTZ)
THE ACCOUNTING OFFICER: VOTE 6: HEALTH (PROF KG HOUSEHAM)
THE ACCOUNTING OFFICER: VOTE 7: SOCIAL SERVICES AND POVERTY ALLEVIATION (MS K LUBELWANA) (ACTING)
THE ACCOUNTING OFFICER: VOTE 8: LOCAL GOVERNMENT AND HOUSING (MS S MAJIET)
THE ACCOUNTING OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR T TOLMAY)
THE ACCOUNTING OFFICER: VOTE 10: TRANSPORT AND PUBLIC WORKS (MR T MANYATHI)
THE ACCOUNTING OFFICER: VOTE 11: AGRICULTURE (MS J ISAACS)
THE ACCOUNTING OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (DR H FAST) (ACTING)
THE ACCOUNTING OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MR MN LINDIE)

THE CHIEF FINANCIAL OFFICER: VOTE 1: PREMIER (MR H ARENDSE)
THE CHIEF FINANCIAL OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (MS A SMIT) (ACTING)
THE CHIEF FINANCIAL OFFICER: VOTE 3: PROVINCIAL TREASURY (MR A GILDENHUYS)
THE CHIEF FINANCIAL OFFICER: VOTE 4: COMMUNITY SAFETY (MR M MACIKAMA) (ACTING)
THE CHIEF FINANCIAL OFFICER: VOTE 5: EDUCATION (MR L ELY)
THE CHIEF FINANCIAL OFFICER: VOTE 6: HEALTH (MR A VAN NIEKERK)
THE CHIEF FINANCIAL OFFICER: VOTE 7: SOCIAL SERVICES AND POVERTY ALLEVIATION (MR JO SMITH)
THE CHIEF FINANCIAL OFFICER: VOTE 8: LOCAL GOVERNMENT AND HOUSING (MR PAE BREDEKAMP)
THE CHIEF FINANCIAL OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR AA GAFFOOR)
THE CHIEF FINANCIAL OFFICER: VOTE 10: TRANSPORT AND PUBLIC WORKS (MR CR ISMAY)
THE CHIEF FINANCIAL OFFICER: VOTE 11: AGRICULTURE (MR F HUYSAMER)
THE CHIEF FINANCIAL OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MS M ABRAHAMS)
THE CHIEF FINANCIAL OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MR A ASSIM)

THE HEAD OFFICIAL: PROVINCIAL TREASURY (DR JC STEGMANN)
THE HEAD: RESOURCE MANAGEMENT (MS SMA ROBINSON)
THE HEAD: ASSET MANAGEMENT (MR TD PILLAY)
THE HEAD: FINANCIAL GOVERNANCE (MR TC ARENDSE)
THE HEAD: PUBLIC FINANCE (MR H MALILA)
THE CHIEF FINANCIAL OFFICER (MR A GILDENHUYS)
THE SENIOR MANAGER: HUMAN RESOURCE MANAGEMENT (MS C PAUL)
THE SENIOR MANAGER: ACCOUNTING (MR A REDDY)
THE SENIOR MANAGER: NORMATIVE FINANCIAL MANAGEMENT (MR F JACOBS) (ACTING)
THE SENIOR MANAGER: RISK MANAGEMENT AND GOVERNANCE SYSTEMS (MR L NENE)
THE CHIEF AUDIT EXECUTIVE (MS R JAFTHA)
THE SENIOR MANAGER: ECONOMIC ANALYSIS (MS B BOQWANA)
THE SENIOR MANAGER: FISCAL POLICY (MR D CORNELLISSON) (ACTING)
THE SENIOR MANAGER: BUDGET OFFICE (MS AJ HICKEY) (ACTING)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT FINANCE (MR DG BASSON)
THE SENIOR MANAGER: LOCAL GOVERNMENT FINANCE (MR G PAULSE)
THE SENIOR MANAGER: PHYSICAL (FIXED) ASSETS AND PPPs (MR NB LANGENHOVEN)
THE SENIOR MANAGER: SUPPLY CHAIN MANAGEMENT (MR L MUNSAMY)
THE SENIOR MANAGER: SUPPORTING AND INTERLINKED FINANCIAL SYSTEMS (MR A BASTIAANSE)
THE HEAD: OFFICE OF THE MINISTRY (MR G GESWINDT)

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GUIDELINES ON VIREMENT

Purpose

1. To provide a uniform interpretation and application of section 43 (clause on virement) as envisaged in the Public Finance Management Act, Act 1 of 1999 (PFMA), and the National Treasury Regulations issued in terms thereof, and

2. To assist accounting officers with the interpretation and application of section 43, especially during the Adjustments Budget stage and when formulating departmental Annual Financial Statements.

Background

3. The introduction of the PFMA has placed greater responsibility for planning on accounting officers.

4. This responsibility takes into account increased vigilance with regards to financial planning and achievement of the stated departmental objectives.

5. Effective planning and implementation involves accurate allocation of funds to various main divisions within a vote. It further holds the accounting officer of a department responsible for effective monitoring of expenditure and revenue collection and for taking corrective action when departmental operations do not happen as planned.

6. The Provincial Parliament appropriates funds to departmental votes for achieving departmental objectives. The Provincial Minister responsible for finance within the province tables the annual Budget in the Provincial Parliament in accordance with a nationally- agreed format.

7. The annual budget contains estimates of all expected revenue to be raised during the financial year, as well as estimates of current and capital expenditure per vote and per main division within that vote.

8. As a mechanism of corrective action, savings in one main division of a vote can be shifted to another main division within the same vote that might experience a possible over spending.

9. Weak or no planning is discouraged by limiting the amount to be shifted from one main division in a vote to another main division within the same vote to eight per cent (see section 43(2) of the PFMA).

10. To reduce the red tape with regard to the shifting of funds <u>within</u> a main division of a vote (e.g. between sub-programmes or economic classifications in the same programme), accounting officers can, however, in future approve such shifts in terms of their own departmental rules. Treasury need only be approached when virement is applied between programmes, and then only where required in terms of the legal limitations in section 43 of the PFMA or National Treasury Regulation 6.3.

11. It is trusted that this intervention will reduce the need for departments to "hide" funds under compensation of employees in a programme only to effect shifts to (unplanned) service delivery during March, resulting in excessive expenditure in that month, the so-called March Spike. The improved flexibility will enable departments to budget properly in the main or adjustments budgets, by allocating funds to items related to planned service delivery outputs instead of internally focused inputs. Transparency and accountability will also be ensured, as the full spectrum of departmental service delivery information will be shared with the public at the time of the budget.

Discussion

Legislation

12. Section 43(1) of the PFMA empowers the accounting officer of a department to utilise a saving in the amount appropriated under a main division within a vote, towards the defrayment of excess expenditure under another main division within the same vote unless the relevant treasury directs otherwise.

13. Treasury Regulation 6.3.1(a) further determines that for purposes of section 43(1) of the PFMA, transfers and subsidies to other institutions may not be increased without the approval of the relevant treasury. It should be noted that this legislation only authorises Treasury to approve the increase in transfer payments between programmes. Virement within a programme, however, is the accounting officer's own responsibility.

14. National Treasury Regulation 6.3.1 provides for the use of savings under one main division within a vote to defray certain categories of excess expenditure under another main division of the same vote, subject to treasury approval. National Treasury Regulations in this regard indicates that:

    (a) Compensation of employees and transfers and subsidies to other institutions, excluding transfers and subsidies to other levels of government for purposes of paying levies and taxes imposed by legislation, may not be increased without the approval of the relevant treasury;

    (b) New transfers and subsidies to other institutions may not be introduced without the approval of the relevant treasury;

    (c) Allocations earmarked by the relevant treasury for a specific purpose (excluding compensation of employees) may not be used for other purposes, except with its approval, and

    (d) Virement of funds from compensation of employees to transfers and subsidies for the payment of severance / exit packages are excluded from the provisions in (a) and (b).

15. Section 43(2) of the PFMA places a proviso that the amount of the saving in section 43(1) may not exceed eight per cent of the amount appropriated under that main division.

Interpretation

16. Since, in terms of section 43(1) of the PFMA, there is no prohibition within the PFMA for the increase in transfer payments within a programme, accounting officers must deal with such cases in terms of their own internal departmental virement procedures.

17. The primary intention of section 43(2) is not to limit virements, but rather to -

    (a) ensure proper planning and allocation of funds to various programmes in accordance with government's policies and priorities, and

    (b) ensure that spending by departments is in accordance with appropriations made by legislatures so as to address the specific needs of communities.

18. The PFMA, however, **does not** make provision for the relevant treasury to approve amounts in excess of eight per cent. Such shifts can only be sanctioned by the Provincial Parliament through an Adjustments Budget.

19. Further, section 43(4) of the PFMA does not authorise the utilisation of a saving on:

    (a) An amount specifically and exclusively appropriated for a purpose mentioned under a programme;

    (b) An amount appropriated for transfer to another institution, and

    (c) An amount appropriated for capital expenditure to defray current expenditure.

Application

20. Section 43 of the PFMA should be applied as follows:

    (a) Accounting officers can shift funds between sub-programmes and economic classifications within a programme in terms of the department's internal virement rules without Treasury's approval.

    (b) After approval of the Appropriation Bill by the Provincial Parliament, the accounting officer can shift up to eight per cent savings under a programme (subject to transfer and capital limitations) towards the defrayment of excess expenditure under another programme.

    (c) The accounting officer, in terms of section 31(2)(f) of the PFMA can shift funds between programmes, but must report this to the relevant treasury, to ensure that the relevant treasury reflects such in the Adjustments Budget (even though this is legislatively not necessary).

(d) Note that further shifts thereafter of eight per cent are also possible after the adjustments are enacted (see (f) below).

(e) Apart from the aforementioned adjustments and in terms of section 31(2)(e) of the PFMA, the Adjustments Budget can provide for much larger shifting of funds between, and within, votes, as long as it is approved by the Provincial Parliament as an Adjustments Act. Large shifts may necessitate changes to the approved strategic plans, etc.

(f) After the finalisation of the Adjustments Budget appropriation process, the accounting officer can again shift up to eight per cent of savings under a programme to defray excess expenditure under another programme. The accounting officer's authority to shift funds after appropriation by the legislature is therefore not limited to appropriations in the Main Budget.

(g) The shifting of funds by the accounting officer after the Adjustments Budget must be reflected in the annual financial statements, which must be tabled in the Provincial Parliament for discussion.

Actions required

21. Accounting officers must -

20.1 ensure strict adherence to the virement guidelines as detailed above, and

20.2 in addition to other adjustments, insert virements done in terms of their internal departmental virement procedures in the adjustments column of the In-year Monitoring (IYM) report and provide the Treasury with copies of the approved virements when submitting the IYM reports.

22. Your cooperation will be appreciated.

HEAD: PUBLIC FINANCE
DATE: 14/09/2006