

Reference: RCS/C.6

## **TREASURY CIRCULAR NO. 14/2016**

THE PREMIER

THE MINISTER OF ECONOMIC OPPORTUNITIES  
THE MINISTER OF COMMUNITY SAFETY  
THE MINISTER OF CULTURAL AFFAIRS AND SPORT  
THE MINISTER OF EDUCATION  
THE MINISTER OF FINANCE  
THE MINISTER OF HEALTH  
THE MINISTER OF HUMAN SETTLEMENTS  
THE MINISTER OF LOCAL GOVERNMENT, ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING  
THE MINISTER OF SOCIAL DEVELOPMENT  
THE MINISTER OF TRANSPORT AND PUBLIC WORKS

For information

THE SPEAKER: PROVINCIAL PARLIAMENT

THE DEPUTY SPEAKER: PROVINCIAL PARLIAMENT

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THE ACCOUNTING OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (DR G LAWRENCE)  
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THE CHIEF FINANCIAL OFFICER: VOTE 14: LOCAL GOVERNMENT (MS B SEWLALL-SINGH)

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 THE DEPUTY DIRECTOR GENERAL: CORPORATE ASSURANCE, DEPARTMENT OF THE PREMIER (MS H ROBSON)

## **ROLLOVER OF UNSPENT FUNDS, RE-ALLOCATION OF FUNDS AND THE RETENTION OF OVER-COLLECTED OWN RECEIPTS FROM 2015/16 TO 2016/17: PRINCIPLES AND PROGRAMME**

### **PURPOSE**

1. To, in terms of sections 18(2)(i) and 31(2)(a) and (g) of the Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA), with regards to the rollover of unspent 2015/16 funds to 2016/17 and the retention of over collected own receipts (revenue) collected in 2015/16 for use in 2016/17 -
  - (a) Inform departments of the guiding statutory limitations, principles and process;
  - (b) Provide departments with National Treasury's annual Division of Revenue Circular regarding the rollover of unspent national conditional grant funds; and
  - (c) Provide departments with the programme and formats to be used for submission of rollover and receipt (revenue) retention requests.
2. To allow departments the opportunity to request the 2015/16 compensation of employees unspent funds for reallocation in 2016/17 to contribute to the reduction in fiscal risks in the 2016 Budget (i.e. the severe drought, infrastructure, negative impact of exchange rate).

### **GUIDING STATUTORY LIMITATIONS**

*Public Finance Management Act, 1999 (Act 1 of 1999)*

3. Section 31(2)(a) of the PFMA stipulates that an adjustments budget of a province may provide for the appropriation of funds that have become available to the Province (such as over-collected own revenue).

4. In terms of section 31(2)(g) of the PFMA, an adjustments budget of a province may also provide for the rollover of unspent funds from the previous financial year.

#### *Treasury Regulations*

5. In terms of Treasury Regulation 6.4.1, funds appropriated but not spent in a particular financial year may be rolled over to a subsequent year subject to approval of the relevant treasury. Such approval will be guided by the following limitations:
  - (a) *Payments for capital assets:* Unspent funds on payments for capital assets may only be rolled over to finalise projects or asset acquisitions still in progress.
  - (b) *Transfers and subsidies:* Savings on transfers and subsidies may not be rolled over for purposes other than originally voted for.
  - (c) *Current payments:* Savings on compensation of employees may not be rolled over. A maximum of five per cent of a department's payments for goods and services may be rolled over.
6. In terms of Treasury Regulation 6.4.2 requests for rollovers must be submitted to the relevant treasury on or before the last working day of April, and must include -
  - (a) The purpose for which the funds were appropriated;
  - (b) The reasons why the funds were not spent;
  - (c) Proposed changes to the use of the funds, if any; and
  - (d) A disbursement schedule indicating the month(s) in which the expenditure is expected to be incurred.
7. Funds for a specific purpose may not be rolled over for more than one financial year, unless approved in advance by the relevant treasury in terms of Treasury Regulation 6.4.3.

#### *2015 Division of Revenue Act (Act 1 of 2015)*

8. Clause 38(2) of the 2015 Division of Revenue Bill stipulates that the repeal of the 2015 Division of Revenue Act (Act No. 1 of 2015) (2015 DoRA) does not affect any duty or obligation set out in that Act, the execution of which is still outstanding.
9. Section 22(1) of the 2015 DoRA, stipulates that, despite anything to the contrary in the Public Finance Management Act or the Municipal Finance Management Act, any conditional allocation, or a portion thereof, that is not spent at the end of the 2015/16 financial year reverts to the National Revenue Fund, unless the roll-over of the allocation is approved in terms of subsection (2).

10. Section 22(2) of the 2015 DoRA stipulates that the National Treasury may, at the request of a transferring national officer, receiving officer or provincial treasury, approve a roll-over of a conditional allocation to the 2016/17 financial year if the unspent funds are committed to identifiable projects.
11. Section 22(3) of the 2015 DoRA stipulates that the receiving officer must ensure that any funds that must revert to the National Revenue Fund in terms of subsection (1), are paid into that Fund by the date determined by the National Treasury.

#### *National Treasury's Annual Division of Revenue Circular*

12. The National Treasury's annual Division of Revenue Circular (see attached), prescribes that the approval of rollover of unspent national conditional grants must be sought from National Treasury. Uncommitted balances on such grants must be surrendered to the National Revenue Fund.

#### *Western Cape Direct Charges Act, 2000 (Act 6 of 2000)*

13. In terms of the Western Cape Direct Charges Act, 2000 (Act 6 of 2000) an Accounting Officer may, after approval of the rollover funds by the Provincial Treasury, but before appropriation thereof in an adjustments appropriation act, spend such rollover funds for the approved purpose or purposes, as a direct charge against the Provincial Revenue Fund.
14. Furthermore, this Act also enables an accounting officer to, after approval of retaining funds (own revenue) by the Provincial Treasury, but before appropriation thereof in an adjustments appropriation act, withdraw the receipt retention funds, for the approved purpose or purposes, as a direct charge against the Provincial Revenue Fund.

### **PRINCIPLES FOR ROLLOVER**

15. Requests for the rollover of funds from 2015/16 to 2016/17 will be considered in terms of the following principles:
  - 15.1 All unspent funds committed to identifiable projects with regards to Schedule 4 and 5 national conditional grants be recommended to National Treasury for rollover, subject to departments providing documentary evidence of such commitments.
  - 15.2 The net balance of unspent funds will be considered for rollover, after deducting the amounts referred to in paragraph 15.1 above and taking into account the statutory and policy requirements, provided that there will not be an unfinanced / increased deficit for the financial year.
  - 15.3 That the guidelines and limitations in Treasury Regulation 6.4 be strictly applied.

- 15.4 That savings or under spending intentionally created through shifts and virements on capital or current expenditure to increase the magnitude of permissible rollover, not be taken into account for rollover purposes.
- 15.5 That the following will form a first liability against the contemplated maximum of five per cent (TR 6.4.1(c)) of a department's payments for goods and services permissible for rollover:
- (a) Under collection in own receipts (revenue).
  - (b) Unauthorised expenditure.
  - (c) Intergovernmental debt if not budgeted for in the next financial year.
  - (d) Trading entity net debt if not budgeted for in the next financial year.
  - (e) With regard to (c) and (d) above, accounting officers are requested to quantify and indicate these amounts in the covering letter of their rollover submission.
- 15.6 That, in a case where the unspent cash available (inclusive of increased own revenue collected) in a vote at the end of 2015/16 is less than the unspent budget available, approvals may take into account the available cash and not just the available budget.
16. Requests for the retention of own revenue will be considered in terms of the following principles derived from the revenue retention strategy accepted by Cabinet in 2003, which created incentives by giving departments permission to retain and utilise any additional funds collected over and above the previous year's adjusted appropriation:
- 16.1 That the request to retain revenue relates to the collection of revenue not anticipated at the time of the 2015/16 Adjusted Budget, or alternatively relates to the implementation of efficiency measures with regard to revenue collection, special initiatives to increase own revenue, donations, etc.
- 16.2 The relevant request should provide a detailed description of revenue sources that led to the over-collection as well as a detailed description of how the sources will be used.
- 16.3 That approval of requests for revenue retention is subject to current and future revenue budgets being credible.
- 16.4 That retained revenue be utilised to fund once-off expenditure.
- 16.5 That revenue over collection firstly be used to offset overspending.

- 16.6 That, in cases where the unspent cash available (inclusive of increased own revenue collected) in a vote at the end of 2015/16 is less than the unspent budget available, approvals may take into account the available cash.

## **NATIONAL CONDITIONAL GRANTS**

17. Requests for the rollover of national conditional grants must be submitted to [Viljoen.Bester@westerncape.gov.za](mailto:Viljoen.Bester@westerncape.gov.za) by using the attached **Annexure for Conditional grant rollovers** and must at least contain the following information:
- The total amount of unspent funds for each relevant conditional grant as at 31 March 2016.
  - The amount of unspent funds for the relevant grant not committed to identifiable projects.
  - The amount of funds currently committed to identifiable projects.
  - Given that section 22 of the 2015 DoRA requires proof of commitments, the Department must provide the Provincial Treasury with a list of the committed projects, clearly stipulating the tender details (pricing and numbers) related to each ongoing infrastructure project or invoices awaiting payment in respect of current expenditure.
18. Treasury Regulation 6.4 will apply with respect to requests for national conditional grant rollovers and Treasury Regulation 6.6 applies with respect to accounting for such in an adjustments budget. Therefore:
- Only funds for projects already in progress may be rolled over.
  - Conditional grant funds earmarked / budgeted for *transfers and subsidies* may not be rolled over unless it will be used for the same purpose already voted for.
  - Conditional grant funds that are budgeted for compensation of employees (such as those within the Human Settlements Development Grant) may not be rolled over if unspent.
19. As the National Treasury, in terms of section 22(2) of the 2015 DoRA, has the authority to approve the rollover of unspent balances on national conditional grants, the national time frames will be adhered to in approving such rollover requests.
20. National Treasury will, after consultation with the Provincial Treasury and the transferring national officer, give approval for funds committed to identified projects to be retained within the relevant Provincial Revenue Fund for the purposes of rolling over to the 2016/17 financial year. Such approval will be communicated by the end of June.

21. Upon submission of the audited financial statements, the National Treasury will provide a final approval for rollovers of conditional grants or a request for the surrender of uncommitted and unspent conditional grants. Any conditional grant funds approved must be included in the adjusted estimates of 2016/17.
22. Conditional grant funds for which no commitments and therefore no rollover is being requested, must be surrendered by the Provincial Treasury to the National Revenue Fund through the relevant national department by 31 May 2016 (or as otherwise agreed with the National Treasury).

## **RE-ALLOCATION OF FUNDS**

23. In order to facilitate seamless budgeting across financial years and to remediate fiscal risks identified in the 2016 budget process, departments are provided the opportunity to request the re-allocation of 2015/16 unspent compensation of employees (CoE) funds to the 2016/17 financial year. The re-allocation request should contribute to the reduction in fiscal risks in the 2016 Budget, thus requests that contribute to mitigating the risks identified in the 2016 MTEF, the severe drought, infrastructure, negative impact of exchange rate.
24. The same Annexure A and A1 must be utilised to request such re-allocations, but the fact that it is a re-allocation must be clearly indicated by the correct selection from the dropdown menu on the 'Set up" page of Annexures A –D, next to the heading 'Application for'.

## **TOTAL REQUESTS: FORMATS**

25. Departments must submit their total requests, inclusive of provincial rollovers and those requests pertaining to Schedule 4 and 5 national conditional grants, requests for the re-allocation of funds, as well as any requests for the retention of own revenue (over collected own receipts), by Friday, **29 April 2016** (prescribed date as per Treasury Regulation 6.4.2) by completing the formats attached hereto as Annexures A, A1, B, B1, C and D. Completed requests must be submitted to the Provincial Treasury on the dates as per the programme below. The formats will be electronically provided to the Management Accounting Unit within the CFO office.
26. Any challenges experienced with the completion of the Annexures must be taken up with the relevant Provincial Government Finance expenditure analyst.

27. In order to enable the Provincial Treasury to make informed decisions regarding departmental requests, Annexure A1 and B1, which includes, inter alia, explanations on the under spending, additional revenue and remedial steps instituted, must be fully completed and motivated. Any further supporting/ additional documentation regarding the rollover requests may also be submitted with Annexure A1.
28. Post approval, departments must reflect their allocations from both sources, i.e. rollover and revenue retention, in the in-year monitoring (IYM) reports and also, eventually, take it up in the Adjusted Estimates of Provincial Expenditure for 2015/16.

## PROGRAMME

29. The programme for the roll-over, re-allocations and revenue retention process is as follows:

ACTION	DATE
Accounting officers to submit their requests for national conditional grant rollovers to Provincial Treasury per e-mail.	28 April 2016
Provincial Treasury to submit requests for national conditional grant rollovers to National Treasury.	29 April 2016
Accounting officers to submit their requests for all rollovers (schedule 4 and 5 included), re-allocations and revenue retention.	29 April 2016
Accounting officers to submit suitably adjusted and firmed up provincial requests after preliminary closure of books.	31 May 2016
Provincial Treasury to clear approvals with the Provincial Minister of Finance.	May 2016

30. Please note that the timely submission of departmental requests as per the programme is a legal requirement in terms of Treasury Regulation 6.4.2. Requests must be submitted under cover of a letter signed by both the Accounting Officer and the Chief Financial Officer.
31. After the preliminary closure of the books on 30 April 2015, the 2015/16 financial results/position will be determined and requests must, if required, be suitably adjusted and firmed up by **31 May 2016**.



## **ACTIONS REQUIRED**

32. Departments to note -

- (a) The guiding statutory limitations, principles and process for rollover and revenue retention.
- (b) National Treasury's annual Division of Revenue Circular regarding the rollover of unspent national conditional grant funds, as attached.
- (c) The programme and formats to be used for submission of rollover and receipt (revenue) retention requests.
- (d) The opportunity provided to request the 2015/16 compensation of employees unspent funds for reallocation in 2016/17 to contribute to the reduction in fiscal risks in the 2016 Budget (i.e. the severe drought, infrastructure, negative impact of exchange rate).

A handwritten signature in black ink, consisting of a large, stylized loop followed by a horizontal line.

**HEAD: PROVINCIAL GOVERNMENT PUBLIC FINANCE**  
**PROVINCIAL TREASURY**

**DATE:** 15 April 2016



# **national treasury**

Department:  
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**TO: ACCOUNTING OFFICERS OF NATIONAL DEPARTMENTS  
PROVINCIAL HEADS OF DEPARTMENT  
NATIONAL AND PROVINCIAL CHIEF FINANCIAL OFFICERS**

## **DIVISION OF REVENUE CIRCULAR – UNSPENT CONDITIONAL GRANTS IN RESPECT OF THE 2015/16 FINANCIAL YEAR**

### **COMPLIANCE WITH SECTION 22 OF THE 2015 DIVISION OF REVENUE ACT (ACT NO.01 OF 2015), AS AMENDED**

#### **1. PURPOSE**

- 1.1 To give effect to the provisions of Section 22 of the 2015 Division of Revenue Act (Act No.01 of 2015), as amended.

#### **2. LEGAL REQUIREMENTS**

- 2.1 In terms of Section 22 (2) of the 2015 Division of Revenue Act, any conditional allocation that is not spent at the end of a financial year reverts to the National Revenue Fund, unless the relevant receiving officer can prove to the satisfaction of the National Treasury that the unspent allocation is committed to identifiable projects.
- 2.2 Furthermore, Section 22 (2) stipulates that the National Treasury may at the request of a transferring national officer, receiving officer or provincial treasury approve a rollover from a conditional allocation to the next financial year.

#### **3. PROCEDURE**

- 3.1 To give effect to the above legal requirement the following procedure must be applied:
- 3.1.1 Each Provincial Treasury must by **29 April 2016** indicate to the National Treasury and the transferring national officer in writing:
- 3.1.1.1 The total amount of unspent funds for each relevant conditional grant as at 31 March 2016;
  - 3.1.1.2 The amount of unspent funds for the relevant grant not committed to identifiable projects;
  - 3.1.1.3 The amount of funds currently committed to identifiable projects; and
  - 3.1.1.4 Given that Section 22 of the Act requires proof of commitments, the Provincial Treasury must submit a list of the projects referred to in (3.1.1.3) above, clearly stipulating the tender details (pricing and numbers) related to each ongoing infrastructure project or invoices awaiting payment in respect of current expenditure.

- 3.1.2 Conditional grant funds for which no commitments and therefore no rollovers are being requested must be surrendered by the Provincial Treasury to the National Revenue Fund through the relevant national department by **31 May 2016**.
- 3.1.3 National Treasury will, after consultation with the relevant treasury and the transferring national officer, give provisional approval for funds committed to identifiable projects to be retained within the relevant Provincial Revenue Fund for the purposes of rolling-over to the 2016/17 financial year. Such approval will be communicated within 21 days of receipt of the project lists and the committed amounts as outlined above.
- 3.1.4 All funds already transferred to provincial departments but unspent must be surrendered and retained within the provincial revenue fund, pending finalisation of the rollover process.
- 3.1.5 Upon submission of the audited financial statements, the National Treasury will provide a final approval for rollovers of conditional grants or a request for the surrender of uncommitted and unspent conditional grants. Any conditional grant funds approved as a provincial rollover must be included in the *provincial adjusted estimates* of 2016/17.
- 3.1.6 The relevant Provincial Treasury must surrender any uncommitted funds as determined by the National Treasury to the relevant national department.
- 3.1.7 National departments must, upon receipt of these funds, promptly surrender the same to the National Revenue Fund.

#### **4. REQUESTS FOR ROLL-OVERS**

- 4.1 Treasury Regulation 6.4 will apply with respect to requests for roll-overs (including the implementation of provincial roll-overs), and Treasury Regulation 6.6 applies with respect to accounting for such in an adjustments budget. Therefore:
  - 4.1.1 Only funds for projects already in progress may be rolled-over;
  - 4.1.2 Conditional grant funds earmarked/budgeted for *transfers and subsidies* may not be rolled-over unless they will be used for the same purpose already voted for;
  - 4.1.3 Conditional grant funds that are budgeted for *compensation of employees* (such as those within the Human Settlements Development Grant) may not be rolled over if unspent.
  - 4.1.4 In the case of funds either withheld by a national department as at 31 March 2016 or where a province has surrendered funds, the relevant national department may submit to National Treasury a request for roll-overs. Any such request must be supported by the Provincial Treasury in the relevant province. The request must be accompanied by an appropriate motivation on behalf of the sector and the province.

#### **5. CONCLUSION**

- 5.1 This circular seeks to provide clarity on the application of Section 22 of the 2015 Division of Revenue Act.
- 5.2 This circular is not a substitute for any other requirement stipulated in the 2015 Division of Revenue Act and does not affect any duty or obligation set out in that Act, or the relevant conditional grant framework in terms of Section 16.

- 5.3 Directives related to the relevant accounting procedures have been issued by the Office of the Accountant-General.

## **6. APPLICABILITY**

- 6.1 This circular applies to all national and provincial departments that have conditional grant allocations within their budgets, either as transferring national officers or receiving officers in provinces.

## **7. EFFECTIVE DATE**

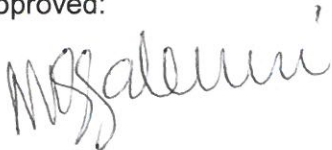
- 7.1 The procedures contained in this circular take effect from 01 April 2016 and must be adhered to by all accounting officers.

## **8. CONTACT PERSON**

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Approved:



**MALIJENG NGQALENI**  
**DEPUTY DIRECTOR-GENERAL: INTERGOVERNMENTAL RELATIONS**

**DATE:** 18/03/2016