

Reference: RCS/C.6 (PTR 15/2/3 (2016/17))

TREASURY CIRCULAR NO. 10/2017

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
THE SPEAKER: PROVINCIAL PARLIAMENT
THE DEPUTY SPEAKER: PROVINCIAL PARLIAMENT
THE ACCOUNTING OFFICER: VOTE 1: PREMIER (ADV B GERBER)
THE ACCOUNTING OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (DR G LAWRENCE)
THE ACCOUNTING OFFICER: VOTE 3: PROVINCIAL TREASURY (MR Z HOOSAIN)
THE ACCOUNTING OFFICER: VOTE 4: COMMUNITY SAFETY (MR G MORRIS)
THE ACCOUNTING OFFICER: VOTE 5: EDUCATION (MR BK SCHREUDER)
THE ACCOUNTING OFFICER: VOTE 6: HEALTH (DR B ENGELBRECHT)
THE ACCOUNTING OFFICER: VOTE 7: SOCIAL DEVELOPMENT (DR R MACDONALD)
THE ACCOUNTING OFFICER: VOTE 8: HUMAN SETTLEMENTS (MR T MGULI)
THE ACCOUNTING OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR P VAN ZYL)
THE ACCOUNTING OFFICER: VOTE 10: TRANSPORT AND PUBLIC WORKS (MS J GOOCH)
THE ACCOUNTING OFFICER: VOTE 11: AGRICULTURE (MS J ISAACS)
THE ACCOUNTING OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MR S FOURIE)
THE ACCOUNTING OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MR B WALTERS)
THE ACCOUNTING OFFICER: VOTE 14: LOCAL GOVERNMENT (MR G PAULSE)
THE CHIEF FINANCIAL OFFICER: VOTE 1: PREMIER (MR D BASSON)
THE CHIEF FINANCIAL OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (MS N PETERSEN)
THE CHIEF FINANCIAL OFFICER: VOTE 3: PROVINCIAL TREASURY (MR A GILDENHUYS)
THE CHIEF FINANCIAL OFFICER: VOTE 4: COMMUNITY SAFETY (MR M FRIZLAR)
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 DEVELOPMENT (MR JO SMITH)
THE CHIEF FINANCIAL OFFICER: VOTE 8: HUMAN SETTLEMENTS (MR F DE WET)
THE CHIEF FINANCIAL OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR T GILDENHUYS)
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 (MS BG RUTGERS)
THE CHIEF FINANCIAL OFFICER: VOTE 14: LOCAL GOVERNMENT (MS B SEWLALL-SINGH)
THE HEAD OFFICIAL: PROVINCIAL TREASURY (MR Z HOOSAIN)
THE DEPUTY DIRECTOR GENERAL: FISCAL AND ECONOMIC SERVICES (MR H MALILA)
THE DEPUTY DIRECTOR GENERAL: GOVERNANCE AND ASSET MANAGEMENT (MR A HARDIEN)
THE CHIEF DIRECTOR: PUBLIC POLICY SERVICES (MS M KORSTEN)
THE CHIEF DIRECTOR: PROVINCIAL GOVERNMENT PUBLIC FINANCE (MS JD GANTANA)
THE CHIEF DIRECTOR: LOCAL GOVERNMENT PUBLIC FINANCE (MR M SIGABI) (ACTING)
THE CHIEF DIRECTOR: ASSET MANAGEMENT (MR IG SMITH)
THE CHIEF DIRECTOR: FINANCIAL GOVERNANCE AND ACCOUNTING (MR B VINK)
THE CHIEF FINANCIAL OFFICER (MR A GILDENHUYS)
THE HEAD: OFFICE OF THE FINANCE MINISTRY (ADV E PRETORIUS)
THE DIRECTOR: BUSINESS INFORMATION AND DATA MANAGEMENT (MR PP PIENAAR)

For information

THE DIRECTOR: FINANCIAL GOVERNANCE (MR AD THOMAS) (ACTING)
THE DIRECTOR: FISCAL POLICY (DR N NLEYA)
THE DIRECTOR: INFRASTRUCTURE (MR R DANIELS) (ACTING)
THE DIRECTOR: LOCAL GOVERNMENT ACCOUNTING (MR L BRINDERS)
THE DIRECTOR: LOCAL GOVERNMENT BUDGET OFFICE (MR ML BOOYSEN)
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THE DIRECTOR: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP TWO) (MR M SIGABI)
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THE PROVINCIAL AUDITOR
MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT
THE DEPUTY DIRECTOR GENERAL: CORPORATE ASSURANCE, DEPARTMENT OF THE PREMIER (MS H ROBSON)

COMPENSATION OF EMPLOYEES: EARMARKED ALLOCATION

PURPOSE

1. The purpose of this circular is to provide guidance and communicate the implications of compensation of employees appropriated as specifically and exclusively in terms of an Appropriation Act.

BACKGROUND

2. As part of a fiscal consolidation strategy in the 2016 budget, the setting of personnel upper limits was introduced, and compensation of employees was specifically and exclusively appropriated in terms of the Western Cape Appropriation Act.
3. This Circular does not apply to the Provincial Parliament, as their compensation of employees' allocation was not specifically and exclusively appropriated.

DISCUSSION

4. For the first time, as part of the 2016/17 Main Budget process, the aggregate compensation of employees allocation (personnel expenditure limits) to departments has been earmarked as specifically and exclusively appropriated in terms of the Western Cape Appropriation Act, 2016, (Act 3 of 2016).
5. The setting of aggregate personnel expenditure limits within the 2016 Appropriation Act thus means that departments were not able to increase or decrease their aggregate compensation of employees' budgets, other than by another Act of Parliament, i.e. by means of the Western Cape Adjustments Appropriation Act as part of the 2016 Adjusted Estimates process. Therefore as part of the 2016 Adjusted Estimates process, departments were allowed to shift compensation of employees' funds between and within programmes/sub-programmes for other purposes. The resultant adjusted

compensation of employees' allocation was then further maintained and appropriated as specifically and exclusively in terms of the schedule listed in the Western Cape Adjustments Appropriation Act, 2016.

6. Section 3(b) of the Western Cape Adjustments Appropriation Act, 2016, stipulates that amounts listed in the Schedule to the Act as specifically and exclusively appropriated and that refers to earmarked allocations, may **only be used for the purpose** stipulated in the Schedule to the Act. This means that the compensation of employees' allocation can only be utilised for personnel related matters inclusive of personnel costs, employee benefits and intangible costs such as annual leave benefits.
7. Further implication is that neither virements nor shifts away and towards compensation of employees in aggregate is allowed as per section 43(4)(a) of the Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA) for another purpose within the Vote. The only technical exception is payment for leave gratuities, retirement benefits and payment of severance packages under Households. It must be noted that the budgeting and expenditure related to personnel and its related employee benefit costs are done under compensation of employees. However, when staff exit the public service due to resignations and retirements, the payment of leave gratuities are now incurred under Transfers to Households which is for the same purpose since it's been budgeted under compensation of employees.
8. In lieu of this, the transfer from compensation of employees to Households for the payment of severance/exit packages (including leave gratuity payments) is **thus allowed**, since it's for the purpose of personnel. It's only by virtue of a technicality in terms of the Standard Chart of Accounts (SCoA) that this personnel related expense incur under Households, although it relates to compensation of employees.
9. The above exception is also echoed in the principles applied under the Virement rules for compensation, where it is acknowledged that the Virement of funds from compensation of employees to transfers under Households for the payment of severance/exit packages (which includes leave gratuity payments) are excluded from the Virement provisions as per Treasury regulation 6.3.1(a) and (b).

ACTIONS REQUIRED

10. The departments' compensation of employees' 2016/17 adjusted budget has been earmarked i.e. it has been classified as specifically and exclusively appropriated, and hence the following applies at year end for 2016/17:
 - (a) Departments will not be able to increase or decrease their aggregate compensation of employees budgets through virements or shifts away and towards compensation of employees; and

- (b) The only exception is where the compensation of employees' savings will be utilised for the same purpose to fund payments related to severance/exit packages (which includes leave gratuity) under Households.



H MALILA

DEPUTY DIRECTOR-GENERAL: FISCAL AND ECONOMIC SERVICES

DATE: 28 March 2017