

PROVINSIALE TESOURIE • PROVINCIAL TREASURY •  
UNONDYEBO WEPHONDO



Verwysing  
Reference  
Isalathiso

F8/2/3 – 06/07

Navrae  
Enquiries  
Imibuzo

G Tombey

**TREASURY CIRCULAR NO. 20/2006**

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

} For information

THE SPEAKER: PROVINCIAL PARLIAMENT  
THE DEPUTY SPEAKER: PROVINCIAL PARLIAMENT

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 A PHILLIPS)  
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)

THE PROVINCIAL AUDITOR

MASTER RECORDS OFFICIAL: FINANCIAL MANAGEMENT



## REQUIREMENTS WITH REGARD TO PROVINCIAL ALLOCATIONS TO MUNICIPALITIES

### Purpose

1. To inform Accounting Officers of the legislative framework with regard to provincial allocations to municipalities.
2. To request Accounting Officers to
  - 2.1 clear letters with possible financial implications for municipalities over the MTEF period, with the Provincial Treasury prior to signing and issuing there-of.
  - 2.2 continuously inform the Provincial Treasury of the status of negotiations regarding the finalisation of proposed allocations during the period prior to the annual LGMTEC 2 (normally around mid January).
  - 2.3 request prior approval, with sufficient motivation, by notifying the Provincial Treasury of any impending changes to allocations already gazetted, prior to such changes being implemented.

### Legislative framework

3. Section 36(1) of the Municipal Finance Management Act, 2003 (No. 56 of 2003) (MFMA) states that: "In order to provide predictability and certainty about the sources and levels of intergovernmental funding for municipalities, the accounting officer of a provincial department responsible for the transfer of any proposed allocations to a municipality, must by no later than 20 January of each year notify the Provincial Treasury, of all proposed allocations, and the projected amounts of those allocations, to be transferred to each municipality during each of the next three financial years."
4. Section 29(2) of the Division of Revenue Act, 2006 (No. 2 of 2006), (DORA) states that: "The provincial treasury must in respect of allocations to municipalities other than allocations made in terms of this Act publish, with its annual budget and in the Gazette, not later than 14 April 2006 –
  - (a) the allocation per municipality for every allocation made by the province to municipalities; and
  - (b) the envisaged division of the allocation contemplated in paragraph (a) in respect of each municipality, for the next financial year and the 2008/09 financial year."
5. In terms of section 29(3) of DORA a Provincial Treasury may, in accordance with a framework determined by the National Treasury, make allocations to municipalities that were not previously published. These allocations must be published in the Provincial Gazette before any transfers can be made, unless the allocations were published with the Adjustments Budget submitted to the Provincial Parliament.
6. Section 43(4) of the PFMA states that a saving in an amount appropriated for transfer to another institution may not be vired between main divisions within a vote.

### Background discussion

7. From an in-year budget management perspective, DORA requires the Provincial Treasury to gazette these allocations before any transfers can be made to municipalities. Accounting Officers should please note that failure to gazette allocations prior to the transfer there-of would result in the expenditure being classified as irregular. Section 81(1)(b) of the PFMA states that "An Accounting Officer for a department commits an act of financial misconduct if that Accounting Officer wilfully or negligently makes or permits an unauthorised expenditure, irregular expenditure or a fruitless and wasteful expenditure."



8. The virement requirements as stipulated in section 43(4) of the PFMA, imply that an in-year reduction in a transfer to another institution in a programme in favour of another programme is subject to a legislative process (i.e. Adjustments Budget).
9. During the recent LGMTEC engagements relating to the 2006/07 municipal budgets, the following concerns were highlighted with regard to provincial allocations to municipalities:
  - Municipalities received letters, promising financial assistance particularly over the 2006 MTEF period, only to discover months later that the transfer will no longer flow. This resulted in inefficiencies and resource wastage as municipalities had already geared up for implementation.
  - Figures provided by provincial departments to municipalities varied significantly during the weeks prior to the tabling of the provincial budget. Municipalities require revenue certainty during this period as they commence with public participation processes where credibility of budgetary information linked to planned service delivery is of utmost importance.
  - There were variances between amounts that were gazetted and amounts actually transferred to municipalities. These variances had budgetary and service delivery implications at municipal level.

#### **Measures introduced**

10. To address the concerns of municipalities and to streamline the process relating to transfers to municipalities, all future letters with financial implications for municipalities over the MTEF period must be cleared with the Provincial Treasury prior to signing and issuing there-of. This is especially important during the period prior to LGMTEC 2, i.e. before 20 January each year, where it is required that the numbers be final so as to provide revenue certainty to municipalities during their draft budget stage and its associated public participation processes. To this end and to improve monitoring during this crucial stage, provincial departments should also inform the Provincial Treasury of the status of negotiations regarding the finalisation of proposed allocations during the period prior to LGMTEC 2.
11. To enable the Provincial Treasury to perform a meaningful monitoring role in ensuring municipal revenue certainty, predictability and transparency during a financial year, Accounting Officers are required to request prior approval and provide the Provincial Treasury – for attention: Head: Public Finance, Room 3-17, 3<sup>rd</sup> Floor, 7 Wale Street, Cape Town, 8001 - with sufficient motivation for proposed changes to allocations already gazetted, prior to such changes being effected. This practice will assist in streamlining the adjustments budget processes of the Province and the municipalities and will assist Accounting Officers in not making irregular transfers to municipalities. Accounting Officers should ensure that sections 29(3) of DORA and 43(4) of the PFMA are strictly complied with when changes are effected.

#### **Actions required**

12. Accounting Officers should –
  - 12.1 adhere to the requirements as set out in the legislative framework;
  - 12.2 clear letters with possible financial implications for municipalities over the MTEF period, with the Provincial Treasury prior to signing and issuing there-of;

- 12.3 continuously inform the Provincial Treasury of the status of negotiations regarding the finalisation of proposed allocations during the period prior to the annual LGMTEC 2 (normally around mid January).; and
- 12.4 request prior approval, with sufficient motivation, by notifying the Provincial Treasury of any impending changes to allocations already gazetted, prior to such changes being implemented.
13. Your co-operation will be appreciated.



**HC MALILA**  
**HEAD: PUBLIC FINANCE**  
**PROVINCIAL TREASURY**  
DATE: 16-08-06