



Member of the Executive Council
for Finance
FREE STATE PROVINCE

CABINET REFERENCE NO.: ____ /2013

DEPARTMENTAL FILE NO.: 2nd ADJUSTMENT BUDGET 2012/13

**FREE STATE EXECUTIVE COUNCIL MEMORANDUM
PROVINCIAL TREASURY**

SUBJECT: 2nd ADJUSTMENT BUDGET FOR THE 2012/13 FINANCIAL YEAR

1. PURPOSE

To request the Executive Council to approve the 2012/13 second (2nd) Adjustment Budget.

2. BACKGROUND

The 2012/13 second (2nd) Adjustment Budget is mainly guided by section 18(1) of the 2012 Division of Revenue Act due to stopping of Conditional Grants from other provinces to Free State Province. Subsequently, the 2012/13 second (2nd) Adjustment Budget largely makes provision for additional funding to Department of Public Works regarding Devolution of Property Rates Fund Grant and Department of Education for Infrastructure Grant in order to address service delivery challenges in the current financial year.

Furthermore, this budget provides for reallocation of a portion of Mass Sport and Recreation Participation Grant from Department of Sport, Arts, Culture and Recreation to other provinces.

In addition to the above, the 2012/13 2nd Adjustment budget also caters for defrayment of over expenditure in excess of 8 per cent between programmes within a vote as per the requirements of section 43 (2) of the Public Finance Management Act as well the correction of technical errors.

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3. DISCUSSION

3.1 DEVOLUTION OF PROPERTY RATES FUND GRANT

The Department of Public Works receives an additional amount of **R36.615 million** relating to Devolution of Property Rates Fund Grant from other provinces; this amount will be utilized towards municipal property rates payments in various municipalities in the province.

3.2 EDUCATION INFRASTRUCTURE GRANT

An additional amount of **R60.000 million** is allocated to the Department of Education towards Infrastructure Grant to address pressures in schools' infrastructure.

3.3 MASS SPORT AND RECREATION PARTICIPATION GRANT

An amount of **R0.255 million** from Free State Department of Sport, Arts, Culture and Recreation for Mass Sport and Recreation Participation Grant has been re-allocated by National Department of Sport and Recreation to other provinces in terms of 18 (1) of the 2012 Division of Revenue Act. This implies that Mass Sport and Recreation Participation Grant will be reduced by R0.255 million in the current financial year.

3.4 DEFRAYMENT OF OVER EXPENDITURE BETWEEN MAIN PROGRAMMES

Department of the Premier

The Department of the Premier projected to overspend by an amount of **R14.953 million** in Programme 1, although, savings are to be realized in Programmes 2 and 3. The virements of **R14.953 million** from latter Programmes to Programme 1 will exceed 8 percent as prescribed by section 43(2) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) ("PFMA") and can therefore not be given effect to unless it is included in an Appropriation Bill.

Department of Social Development

The Department of Social Development projected to overspend by an amount of **R16.391 million in Programme 1 & 3**, although a saving in transfers & subsidies and payments for capital assets are to be realized in Programme 2. The virements of **R16.391 million** from Programme 2 will cater for the shortfall in Programmes 1 & 3. The virement will exceed 8 percent as prescribed by section 43(2) of the PFMA and can therefore not be given effect to unless it is included in an Appropriation Bill.

3.5. RECTIFICATION OF TECHNICAL ERRORS

Department of Education

In the process leading to the 2012/13 Adjustments Budget in November, approval was granted for the Department of Education to shift a total of **R291.900 million** away from compensation of employees to goods and services in order to deal with the following urgent priorities at the time, namely:

- Shortfall on bursaries – R65 million;
- Laptops for provincial government bursary holders – R28 million
- Shortfall for CAPS – R198.9 million

However, Provincial Treasury discovered later that the Department of Education shifted **R196.984 million** more than what was in principle approved. However, this contradicts section 38(1)(c)(ii) and 43(1) of the PFMA as it the shifting and/or virement away from compensation of employees did not emanate from a saving and subsequently amount to an irregular expenditure. To rectify this, it is recommended that shifts and/or virements from compensation of employees to goods and services amounting to **R196.984 million** be reversed.

4. FINANCIAL IMPLICATION

The total amount to be appropriated during the tabling of the 2nd adjustment budget for 2012/13 financial year amounts to **R96.360 million** of which **R36.615 million** relates to the Department of Public Works, **R60.000 million** to the Department of Education, and reduction of **R0.255 million** for the Departments of Sport, Arts, Culture and Recreation.

5. SUMMARY OF 2ND ADJUSTMENT BUDGET

Table 1 below depicts summary of the 2012/13 revised adjusted estimates per department.

Table 1: Summary of provincial payments by Vote

Departments R thousand	Adjusted appropriation	Adjustments	Revised Adjusted Appropriation
Vote 1: Department of the Premier	255 261		255 261
Vote 2: Free State Legislature	205 885		205 885
Vote 3: Economic Development, Tourism and Environmental Affairs	418 047		418 047
Vote 4: Provincial Treasury	208 733		208 733
Vote 5: Health	7 759 316		7 759 316
Vote 6: Education	10 434 612	60 000	10 494 612
Vote 7: Social Development	871 122		871 122
Vote 8: Cooperative Governance and Traditional Affairs	311 542		311 542
Vote 9: Public Works	1 241 309	36 615	1 277 924
Vote 10: Police, Roads and Transport	1 958 646		1 958 646
Vote 11: Agriculture	561 906		561 906
Vote 12: Sport, Arts, Culture and Recreation	453 312	(255)	453 057
Vote 13: Human Settlements	1 089 073		1 089 073
Vote 14: Rural Development	40 850		40 850
Total	25 809 614	96 360	25 905 974

6. PARTIES CONSULTED

All departments affected by the proposed adjustments were consulted.

7. COMMUNICATION

All departments will be notified about the Executive Council's final decision as soon as it has been communicated to Provincial Treasury.

8. RECOMMENDATIONS

It is recommended that the Executive Council:

- 8.1 **Approves** the appropriation of **R96.360 million** in the 2012/13 financial year in the following manner:
- 8.1.1 **R36.615 million** to Department Public Works for Devolution of Property Rates and Taxes;
 - 8.1.2 **R60.000 million** to Department of Education for Infrastructure Grant; and
 - 8.1.3 Re-allocation of **R0.255 million** from Mass Sport and Recreation Participation Grant in the Department of Sport, Arts, Culture and Recreation to other provinces.
- 8.2 **Approves** defrayment of over expenditure of **R14.953 million** in Programme 1 in the Department of the Premier to avoid unauthorized expenditure.
- 8.3 **Approves** rectification of compensation budget from goods and services amounting to **R196.984 million** in the Department of Education.
- 8.4 **Approves** defrayment of over expenditure of **R16.391 million** in the Department of Social Development to avoid unauthorized expenditure.

Recommended by:

Mr. H.L KGOMONGWE
CHIEF EXECUTIVE OFFICER
PROVINCIAL TREASURY

Date: ____/____/____

Submitted by:

E.C. ROCKMAN
MEC FOR FINANCE
TO: The Secretary: Free State Executive Council

Date: ____/____/____

Please place an appropriate item on the next agenda of the Executive Council and distribute copies of this Memorandum to the respective Members of the Executive Council for consideration.

Me. E.C. ROCKMAN
MEC FOR FINANCE

DATE: _____

ANNEXURE A

DRAFT PROPOSED EXCO RESOLUTION

CABINET MEETING RESOLUTION NO. _____/2013

SUBJECT: 2nd ADJUSTMENT BUDGET FOR THE 2012/13 FINANCIAL YEAR

FILE NO.: 2nd Adjustment Appropriation, 2012/13 (PROVINCIAL TREASURY)

1. RESOLVED THAT:

1.1 The Executive Council approves the 2012/13 2nd Adjustment Appropriation in the memorandum above.

2. FURTHER RESOLVED THAT:

2.1 _____

SECRETARY: EXECUTIVE COUNCIL

DATE