



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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Mr HL Kgomongwe
The Head Official
Free State Provincial Treasury
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Dear Mr Khomongwe

PROVINCIAL ADJUSTMENTS APPROPRIATION FOR 2012/13

1. As discussed at the Budget Council meeting of 8 October 2012, a number of factors result in higher than anticipated spending by provinces on items and programmes funded primarily through national transfers:
 - a. The wage agreement reached during 2012 is 2 per cent higher than what provinces were required to plan for when they tabled their 2012 Budgets. Approximately **R4 billion** is proposed to cover this shortfall. **R87.3 million** is added to the Further Education and Training Colleges conditional grant to cover related shortfalls in expenses funded by the grant.
 - b. **R15 million** is allocated through a new once-off conditional grant to provinces to fund the provision of medical services at the 2013 Africa Cup of Nations (AFCON) tournament scheduled for 18 January to 10 February 2013.
 - c. **R366 million** approved for unforeseen and unavoidable expenditure for infrastructure in health conditional grants.
2. These allocations were endorsed by Extended Cabinet on 10 October 2012.

ADJUSTMENTS TO PROVINCIAL EQUITABLE SHARES

3. In the 2012/13 financial year, the government agreed to a 7 per cent salary increase and the adjustment budgets provide for the 2 per cent difference between the 7 per cent increase and 5 per cent the provinces were instructed to budget for. The agreement also cover the increase of the housing allowance from R800 to R900 per month effective from April 2012, long service recognition cash awards and night shift allowance. Total adjustments to the provincial equitable shares are **R3.958 billion** for the higher than anticipated wage agreements. The funding covers the full cost of the ICS shortfall (including housing allowance and long service bonuses) but does not make provision for growth in personnel numbers in the different sectors, with exception to education and health sectors that may need to fill critical posts.
4. As discussed at the Budget Council on 8 October 2012, the funds are shared amongst provinces using the same approach agreed to by Budget Council, i.e. estimate the cost for the ICS shortfall based on personnel as at 31 March 2012 and cover 11 months of the fiscal year.

ADJUSTMENTS TO CONDITIONAL GRANTS

5. Total adjustments to conditional grants are **R468.3 million** and are discussed in detail below.

Further Education and Training Colleges Grant

6. The Further Education and Training (FET) Colleges Grant is adjusted by **R87.336 million** to cover the costs of above inflation increases to ICS. This should cover the full cost of the ICS at FET colleges.

2013 African Cup of Nations: Medical Services Grant

7. **R15 million** is allocated through a new once-off conditional to provinces to fund the provision of medical services at the 2013 Africa Cup of Nations (AFCON) tournament scheduled for 18 January to 10 February 2013. Funding is allocated to Eastern Cape, Gauteng, KwaZulu-Natal, Mpumalanga and North West.

Other adjustments to conditional grants

8. **R366 million** has been approved for unforeseen and unavoidable expenditure in health:
 - a. **R180 million** added to the Health Infrastructure Grant for health infrastructure to KwaZulu-Natal.
 - b. **R186 million** added to the Hospital Revitalisation Grant for health infrastructure to Free State and KwaZulu-Natal.

CONSOLIDATED ALLOCATIONS FOR YOUR PROVINCE

9. Annexure A contains your share of the allocations discussed in detail in this letter.

GENERAL POINTS TO NOTE IN RESPECT OF 2012/13 ADJUSTMENTS

10. The allocations discussed in this letter must, as required in terms of Section 15(2) of the 2012 Division of Revenue Act, be published in the Division of Revenue Amendment Act. These adjustments can only be transferred to provinces once the President has signed the National Adjustments Appropriation Bill and Division of Revenue Amendment Bill into law, which should be during December 2012. These additional amounts will be transferred to provinces in January 2013.
11. In preparing your 2012/13 Adjusted Estimates, you should ensure that all additional allocations received from national departments are appropriated and included in a provincial gazette in terms of the 2012 Division of Revenue Act. In the event of a grant not being included in the gazette, this should be brought to our attention.
12. It is critical that your province's Adjustments Appropriation Bill is aligned with the format used by National Government (Annexure B) and that it fully complies with the provisions contained in Section 31 of the PFMA.
13. Provinces should note that given Section 43 of the PFMA on virements, any provincial contingency reserve or provincial own revenue overruns must be allocated to departmental votes in provincial adjustments budgets to enable authorised spending of such funds. Further adjustments should be in line with all National Treasury circulars on virements.
14. The amounts included in the Adjusted Estimates will influence the approved provincial payment schedules circulated to provincial treasuries earlier this year. A revised payment schedule that accommodates the above revisions will be submitted to provinces in due course. It must be noted that, in addition to the legal process in respect of the national Adjusted Appropriation Bill outlined above, transfer dates for provinces are informed by cash availability and the asset and liability management obligations of the National Treasury. Therefore, Provincial Treasuries are expected to carefully

cash-manage their revenue funds and to manage the commitments of the province in order to ensure a sustainable in-year financial position.

15. It is important that your In-year Management, Monitoring and Reporting System is adjusted to reflect the revised allocations on both the Revenue and Expenditure side. Importantly, all provincial rollovers and additional funding from the Provincial Revenue Fund should be reflected as financing. All these adjustments should be reflected in your In-year Management, Monitoring and Reporting System to be submitted on 21 January 2013 for the period ending 31 December 2012 to be published for the third quarter by 30 January 2013.
16. The National Treasury will shortly finalise the approvals for the rollover of conditional grants currently in the provincial revenue funds for the 2012/13 financial year. These will be communicated to each Provincial Treasury once the audited data is consolidated.
17. You are requested to promptly submit to the National Treasury copies (both hard and electronic) of your Adjusted Estimates once these are finalised and tabled in your legislature.

Kind regards



KENNETH BROWN
DEPUTY DIRECTOR-GENERAL: INTERGOVERNMENTAL RELATIONS

DATE: 24/10/2012