



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

**REPORT TO THE PORTFOLIO COMMITTEE: HUMAN SETTLEMENTS ON THE TREATMENT OF  
ADVANCE PAYMENTS TO SERVICE PROVIDERS IN TERMS OF THE PUBLIC FINANCE MANAGEMENT  
ACT, ACT NO. 1 OF 1999**

**Purpose**

1. To brief the committee on the treatment of advance payments as stipulated in the Treasury Regulations, in terms of section 76 of the Public Finance Management Act (PFMA), Act 1 of 1999.

**Discussion**

2. The PFMA promotes good financial management in order to maximise service delivery through efficient and effective use of resources. One of the key objectives of the PFMA is to enable public sector managers to manage, while at the same time holding them accountable for their management decisions.
3. In terms of section 38(1)(a)(i) of the PFMA, the accounting officer of a department must ensure that the department has and maintains an effective, efficient and transparent system of financial and risk management and internal control. Section 38(1)(b) states that the accounting officer of a department is responsible for the effective, efficient, economical and transparent use of the resources of the department.
4. Treasury Regulation 15.10.1.1 stipulates that the accounting officer of a department is responsible for establishing systems and procedures to ensure efficient and effective banking and management. Sound cash management, in terms of Treasury Regulation 15.10.1.2, includes:
  - a. making payments, including transfers and subsidies to other levels of government and non-government entities no earlier than necessary, with due regard for efficient, effective and economical programme delivery, and
  - b. avoiding prepayments for goods and services, unless required by the contractual arrangements with the supplier.
5. Whilst the Treasury Regulations do not preclude departments from making advances to service providers, where this may be reasonable and necessary, it is the intention that accounting officers exercise caution when making such advances, taking cognisance of and managing the risks associated with making such an advance, and ensuring that appropriate reporting and financial reconciliation procedures are in place.
6. During 2009, the IDT informed the National Treasury that the chief financial officers of certain departments were reluctant to make advances to the entity due to the provisions of Treasury Regulation 15.10.1.2(c). In its response, the National Treasury informed the IDT that the aforementioned Treasury Regulation does not prevent departments from making payments in advance of the receipt of goods or services but rather requires the accounting officer to exercise caution when making such advances, taking into account the risks associated with such payments. A copy of this correspondence is enclosed as Annexure A.

7. It must, however, be emphasised that the National Treasury did not instruct the Department of Human Settlements to make any advance payment to the IDT for the provision of sanitation and water facilities in rural areas or for the implementation of the Rural Household Infrastructure Grant. Responsibility for such a decision rests with the Department's Accounting Officer.

### Financial Performance


8. The Rural Household Infrastructure Grant allocation for 2010/11 was R100 million. At 31 March 2011, the department had spent R63 million or 63 per cent of the 2010/11 adjusted appropriation amount. The allocation for this grant increases from R231 million in 2011/12 to R517 million in 2013/14.

<i>R thousand</i>	Adjusted appropriation	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Rural Household Infrastructure Grant	100 000	-	-	9 878	53 300	63 178
Spending as % of budget		0%	0%	10%	53%	63%

9. When the Department of Human Settlements amended the contract in February 2011 to allow for an advance payment to the IDT in terms of Treasury Regulation 15.10.1.2(c), spending on the Rural Household Infrastructure Grant, for which the IDT and the Mvula Trust are service providers, was at 11 per cent of the adjusted appropriated amount in 2010/11. The R22.5 million paid to the IDT in 2010/11 was all transferred in March 2011.
10. National Treasury has noted that the practice of transferring funds to the IDT late in the financial year is widespread. Out of a total of R2.6 billion which was paid to the IDT in 2010/11 by some 18 national and provincial departments, R657 million (25 per cent) was transferred in March 2011.

### Conclusion

11. Responsibility for sound cash management and compliance with the requirements of Treasury Regulation 15.10.1, and for managing the risks and financial reconciliation procedures associated with such prepayments as may be required to ensure efficient and effective programme delivery, rests with the accounting officer of the responsible department.



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