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ALL ACCOUNTING OFFICERS AND CHIEF FINANCIAL OFFICERS

OFFICE OF THE ACCOUNTANT GENERAL PRACTICE NOTE 9 OF 2002:

MAXIMUM AMOUNTS OF GUARANTEES TO SECURE FINANCING FOR THE PURCHASE OF A MOTOR VEHICLE

We refer to our practice note 7 of 2001 dated 27 March 2001.

1. MAXIMUM AMOUNTS FOR A GUARANTEE

Paragraph 7 of Circular 3 of 2000 from the Department of Public Service and Administration (DPSA) states that senior managers may structure a maximum amount of 25% of their total package per annum as a motor allowance. 50% of the amount allocated as a motor allowance is taxable at a maximum rate of 40% from 1 March 2002. The remaining after tax funds must be used to fund the monthly installments, short term insurance, running and maintenance costs of the motor vehicle.

Paragraph 8.1(6) of the said circular indicates that should an employee not be able to successfully secure a loan, his or her department may apply for a guarantee from National Treasury in order to secure such a motor vehicle loan.

It was confirmed with the DPSA and the various Commercial Banks that of the amount structured as a car allowance, a maximum of 70% be utilized to fund the repayment (i.e. capital and interest) and the remaining 30% be used to fund insurance, maintenance and running costs of the vehicle. These amounts are calculated excluding any taxes payable on the car allowance (i.e. they are gross figures).

The maximum amount of the guarantee at the first notch for each rank has been determined as follows: -

	Director (R)	CD (R)	DDG (R)	DG (R)
Total Package	371 673	437 787	531 267	684 252
Max Annual car allowance -25%	92 918	109 447	132 817	171 063
Monthly car allowance	7 743	9 121	11 068	14 255
70% Capital and Interest	5 420	6 384	7 748	9 979
30% Running costs	2 323	2 737	3 320	4 276
Maximum capital guarantee available @ Prime less 1,5% over 48 months	203 958	240 239	291 536	375 470

The above amounts are the maximum applicable at the various levels:

Senior managers purchasing motor vehicles (WITH OR WITHOUT a guarantee requirement) in excess of the approved amounts would be required to negotiate the payments and guarantees of such excesses with the respective financial institution.

The maximum guarantee amount is fixed at the beginning of each calendar year in line with the SMS Package and will be adjusted on a quarterly basis for significant movements in the rates of interest (1 January, 1 April, 1 July, and 1 October).

2. APPLICATION FOR A GUARANTEE

National Treasury will only issue guarantees to Stannic to ensure that guarantees are managed and regulated.

The procedure of obtaining a guarantee would be as follows:

- a. If a manager cannot secure a loan for a motor vehicle for the amounts reflected in the table above without a guarantee, Stannic must be approached for financing;
- b. Stannic will provide the manager with the necessary application forms to be completed;
- c. The formal guarantee application forms must be signed by the Chief Financial Officer of the respective department to concur and acknowledge the commitment of his/her department;
- d. The application form must then be returned to Stannic who will in turn submit it to National Treasury for consideration. Stannic must furnish satisfactory and acceptable reasons to the National Treasury for the guarantee that is required. The value of the

guarantee may not under any circumstances exceed the maximum amount and period reflected in the table in 1 above;

- e. National Treasury will consider each application for a guarantee from Stannic on its merit and either approve or reject the request for a guarantee;
- f. If approved a copy of the signed guarantee will be returned to the department;
- g. The guarantee must be administered by the department and captured on PERSAL using Function 4.5.18. The guarantee amount must be reduced annually at 31 March such that the guarantee reflects the outstanding capital due to Stannic. This figure must be reported in the annual financial statements;
- h. Upon resignation of a senior manager the respective department must ensure that the value of the outstanding guarantee is secured from the employee in order to redeem the guarantee from Stannic. Failure to do so can be construed as financial misconduct in terms of the Treasury Regulations; and
- i. No guarantee will be issued for a senior manager who has been suspended from a department until the suspension has been lifted.

3. **GUARANTEES FOR THE PURCHASE OF SECOND HAND MOTOR VEHICLES**

Although senior managers may purchase a motor vehicle of any age the following additional conditions will apply if a guarantee is required for a second hand motor vehicle: -

- a. The motor vehicle may not be older than 2 years (as determined from the first registration of the motor vehicle) at the time of purchase;
- b. The purchase price and condition of the vehicle must be in accordance with the expected values in the auto dealer's guide applicable at the time of purchase;
- c. The guarantee will be for a maximum period of 48 months; and
- d. No exceptions to these requirements will be considered.

The procedure and conditions of obtaining a guarantee is as described in 2 above.

4. **NUMBER OF VEHICLES IN THE SCHEME**

In terms of the SMS an official may purchase any number of vehicles, however, in no case will more than one guarantee or a guarantee for more than one vehicle be issued at any point in time.

5. **GENERAL**

Senior managers who do not require a guarantee can approach any Financial Institution for financing. Stannic, the current Financial Institution, is offering a rate of between Prime less 1,5% and Prime less 2,5% depending on the value of the vehicle as reflected below.

Loan Amount	Interest Rate
R 100 000 – R 150 000	Prime less 1.50%
R 150 000 – R 200 000	Prime less 1.75%
R 200 000 – R 250 000	Prime less 2.00%
R 250 001 – R 300 000	Prime less 2.25%
R 300 001 and above	Prime less 2.50%

Stannic is prepared to negotiate the rate, for new business, on an individual basis with the senior manager. Should you want to approach Stannic the contact details are as follows: -

Name	Telephone number
Sheree Kahn	012- 351 3187
Ronel Samson	012- 351 3269
Jana Vorster	012- 351 3352
Graham Gandy	012- 351 3184
Linda Casteller (Only for SANDF)	083- 307 0059

6. **IMPLEMENTATION DATE**

The above limits and procedures will be implemented with effect from 1 April 2002.

Kind Regards

Ismail Mamoojee
ACCOUNTANT-GENERAL
Date: