



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

**ACCOUNTING OFFICERS OF ALL DEPARTMENTS**

**ACCOUNTING OFFICERS OF ALL CONSTITUTIONAL INSTITUTIONS**

**ACCOUNTING AUTHORITIES OF ALL PUBLIC ENTITIES**

**HEAD OFFICIALS OF ALL PROVINCIAL TREASURIES**

**ALL PROVINCIAL ACCOUNTANTS-GENERAL**

**OFFICE OF THE ACCOUNTANT-GENERAL PRACTICE NOTE 5 OF 2006/2007**

**FINANCE LEASE TRANSACTIONS**

**1. Purpose**

1.1 The purpose of this practice note is to:

- grant approval for the irregular expenditure incurred as a result of departments and public entities entering into finance lease transactions with various suppliers in terms of National Treasury's Transversal Contracts RT3 of 2000 and RT3 of 2003 for the supply, delivery, installation, commissioning and maintenance of office equipment and labour saving devices; and
- provide details of circumstances under which departments, constitutional institutions and public entities may enter into finance lease transactions.

**2. Discussion**

**Leases entered into in terms of Transversal Contracts RT 3 of 2000 and RT3 of 2003**

2.1 During October 2000 and June 2003, the National Treasury entered into Transversal Contracts RT3 of 2000 and RT3 of 2003 with various suppliers for the supply, delivery, installation, commissioning and maintenance of office equipment and labour saving devices. Transversal Contract RT3 of 2000 was valid for the period 12 October 2000 to 31 December 2002 whilst RT3 of 2003 was valid for the period 1 June 2003 to 31 May 2006.

- 2.2 These Transversal Contracts made provision for the following institutions to participate in the contracts by entering into lease agreements for the hire of photocopy machines, facsimile machines and shredders:
- All national departments;
  - All public entities listed in Schedule 3A and 3C to the PFMA
  - Western Cape Province;
  - North West Province;
  - Mpumalanga Province;
  - Eastern Cape Province;
  - Northern Cape Province; and
  - Free State Province
- 2.4 Treasury Regulation 13.2.4 states that an accounting officer of a department and constitutional institution may, for the purposes of conducting the institution's business, enter into lease transactions without any limitations provided that such transactions are limited to operating lease transactions.
- 2.5 Similarly, Treasury Regulation 32.2.4 states that the accounting authority of a public entity may, for the purposes of conducting the public entity's business, enter into lease transactions without any limitations provided that such transactions are limited to operating lease transactions.
- 2.6 Despite the aforementioned Treasury Regulations it has, however, come to light that the leases entered into in terms of Transversal Contracts RT3 of 2000 and RT3 of 2003 are in fact finance lease transactions and not operating lease transactions.
- 2.7 The National Treasury acknowledges that the form of a lease contracted into under the Transversal Contracts RT3 of 2000 and RT3 of 2003 may be that of a finance lease which is prohibited by the Treasury Regulations. This practice note hereby grants a blanket approval to departments and public entities for the irregular expenditure incurred as a result of expenses related thereto.

### **Entering into future finance leases**

- 2.8 Despite the provisions contained in Treasury Regulations 13 and 32, departments, constitutional institutions and public entities may in future enter into finance lease transactions without approval of the relevant treasury, provided that:
- 2.8.1 the finance lease is found to be more economical than an operating lease; **and**
- 2.8.2 the period of the finance lease does not exceed 36 months or 60 months in respect of motor vehicles; **and**
- 2.8.3 the finance lease is for the acquisition of equipment, including equipment procured in terms of RT3 of 2006, that is required for the day-to-day operational requirements of the department, constitutional institution or public entity for which funds have been appropriated by the relevant legislature (in the case of departments and constitutional institutions) or for which a budget has been approved by the relevant executive authority (in the case of public entities). The aforementioned equipment refers to equipment such as photocopiers, PABX boards, computer hardware and motor vehicles; or

- 2.8.4 the finance lease is entered into in terms of a transversal contract entered into by the National Treasury on behalf of institutions to which the contract applies.
- 2.9 In instances where the lease period mentioned in paragraph 2.8.2 exceeds the period stipulated therein, the department, constitutional institution or public entity shall obtain written approval from the relevant treasury prior to entering into such a lease.
- 2.10 Where found to be more economical than an operating lease, the National Department of Public Works or other relevant authority may, on behalf of departments, constitutional institutions and public entities, enter into finance lease transactions for the acquisition of land and buildings for operational purposes. This is conditional to expenses relating to the acquisition already having been approved by the relevant legislature or the executive authority in respect of departments/constitutional institutions or public entities respectively. Irrespective of the lease period, finance lease transactions for the acquisition of land and buildings may only be entered into after prior written approval of the relevant treasury.
- 2.11 Agreements entered into under PPP arrangements fall outside the scope of this practice note.

### **3. Communication to public entities**

- 3.1 Accounting officers of departments are requested to please bring the contents of this practice note to the attention of public entities reporting to their executive authorities.

### **4. Effective date**

- 4.1 This practice note applies to all departments, constitutional institutions and public entities with immediate effect.



**FREEMAN NOMVALO  
ACCOUNTANT-GENERAL**

**DATE:** 05 December 2006