



# National Treasury

Annual Report  
2004/2005





Republic of South Africa

## National Treasury

# Annual Report 2004/2005

**Mr TA Manuel  
Minister of Finance**

I have the honour of submitting the Annual Report of the National Treasury for the period 1 April 2004 to 31 March 2005.

**L Kganyago  
Director-General**

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## ACCOUNTING OFFICER'S OVERVIEW

The period covered by this annual report has been marked by significant economic milestones. During this period, the economy grew at 4.1 per cent per annum, the first time that the level of 4 per cent has been exceeded in the past four years (since 2000/01). Furthermore, inflation, running at 2.0 per cent has been kept well in check, and exchange rates on our currency have avoided the marked volatility of the past. While criticism had previously been levelled at what some have termed "jobless growth", this is no longer the case. Between 1 April 2004 and 31 December 2005, 597,000 new job opportunities were created. Consumer and producer confidence was also recorded at high levels during this period.

All these factors point to an economy, which, to borrow a phrase from our Minister, "is pumping". While National Treasury would not make the mistake of claiming "easy victories" in this regard, it is nevertheless heartening to know that through sound macro-economic policies and fiscal discipline, the Department has been able to play its role in contributing to the optimistic "vibe" that currently surrounds the economy and, indeed, the country in general.

But why stop there though? During National Treasury's interaction with the President's International Investment Council and the Commission for Africa, it has become increasingly evident that South Africa has the potential of achieving economic growth rates in excess of 6 per cent per annum. While the situation that pertains in the mining industry and certain sectors within manufacturing provides a reality check, the aim is nevertheless to strive for growth levels, that had previously been deemed by many to be unattainable. Efforts in this regard are being further reinforced by our Government's emphasis on greater investment in infrastructure, employment creation and service delivery.

An important aspect of the economy's development is to improve access to financial services by a substantial portion of the population located in the lower-income levels. This resulted in major work being undertaken on the Dedicated Banks and Cooperative Banks Bills. These pieces of legislation seek to create the opportunity for the establishment of second-and third-tier banks. Third-tier banks would be able to provide basic banking services such as opening savings accounts but, would be limited in terms of available investment vehicles. Second tier banks would have a more flexible regulatory regime, allowing them to provide loans and providing them with a wider array of investment vehicles. Public comments on these Bills were received during the period leading up to January 2005. Roadshows were also undertaken to various village banks in all the provinces to explain the Bills' objectives. These roadshows were also used as forums for collecting comments at community levels in both urban and rural areas. Public support and appreciation has been evident throughout this process.

Staying with the financial sector, a Financial Sector Charter Council was established during 2004 and is making good progress towards establishing the structures necessary to oversee implementation of the Charter. The commitment of banks to provide affordable and accessible banking to people in the LSM (living standards measures) segment of 1 to 5 was evidenced by the four major South African Banks and the Post Bank launching the



**Lesetja Kganyago**  
*Director-General:  
National Treasury*



Mzansi account in October 2004. Among the other initiatives on which banks have expended much effort are the development of strategies to provide housing loans to large numbers of low-income people, development programmes focusing on black advancement, increased procurement of goods and services from black empowerment companies and financing black economic-empowerment transactions.

Initiatives in the financial sector were further reinforced vis-a-vis work undertaken by the Assets and Liability Management Division. This is evident from the introduction of the retail bond, which has encouraged South Africans to save and which has raised R1, 3bn in its initial year of operation, against the backdrop of declining interest rates.

Further, with regard to Assets and Liability Management, introduction of the Intergovernmental Cash Coordination system for the management of cash transfers to and from provinces has seen the reduction of government risk exposure through the pooling of cash resources managed by the South African Reserve Bank and accessibility surplus funding. As for state-owned entities, the introduction of an enhanced shareholder value model for the restructuring of these entities has been a key milestone. This model provides for the payment of dividends to the state, an aspect that had previously been absent.

Regarding its international work programme, the National Treasury continued to engage actively with the International Monetary Fund, World Bank Group, the G20, G24, ADB, Commission for Africa (CFA), NEPAD, SACU and SADC, among others. The global programmes witnessed critical policy changes on the development architecture front. Debt sustainability for low-income countries was raised in the context of concerns regarding the excessive build-up of new debt owing to potentially large financing needs associated with meeting the Millennium Development Goals. The recent commitment by the G8 to cancel outstanding debt of HIPC's to the IMF, World Bank and African Development Bank has been welcomed and could mark a new era in development assistance to alleviate poverty in poor countries.

South Africa also participated in the World Bank's International Development Association (IDA) and ADB's African Development Fund (ADF) replenishments, which marked significant financing for development. The Board of Governors of the IDA approved the fourteenth replenishment of the IDA's resources in terms of which \$34 billion would be made available to the world's 81 poorest countries during the next three years. Of this amount, about \$18 billion will come from new contributions from 40 donor countries. This represents, an increase of almost 25 per cent in overall resources over the previous replenishment, and is the largest expansion of IDA resources in two decades. This increase in IDA resources is a major step forward in the international community's efforts to fight poverty and achieve the Millennium Development Goals. In the case of the ADF, in December 2004 donors agreed to contribute US\$ 3 billion to increase its grants and loans by at least 45 per cent. National Treasury intends strengthening its engagement in international programmes, focusing on influencing the global and regional policy agendas to improve development policies for African economies.

Relations between the various spheres of government received a major boost with the coming into effect of the Municipal Finance Management Act (MFMA) on 1 July 2004. While teething problems are to be expected, all indications at this early stage are that the MFMA is likely to prove as effective as the Public Finance Management Act (PFMA) in

ensuring accountability for the efficient and effective management of resources within the public sector sphere. The emphasis of both the MFMA and the PFMA is to let managers manage within clearly defined parameters of accountability. The approach is both pragmatic and realistic. In addition, the PFMA, has elicited international praise and interest. Representatives from various countries have visited the National Treasury to study the PFMA and its implementation. Some countries are even considering utilising the PFMA as a model for the public finance legislation that they wish to pass.

Accountability has been further enhanced through continued implementation of Generally Recognised Accounting Practices (GRAP). Primary responsibility in this regard rests with the Office of the Accountant General. GRAP is also paving the way for a move away from cash-based accounting towards the more effective system of accrual accounting within Government.

While on the Office of the Accountant General (OAG), it is important to note that this office has been able to produce timely consolidated financial statements for Government for the 2004/05 financial year. Furthermore, the OAG also made significant inroads into the backlog of financial statements that had accumulated during previous financial years under former Accountants-General as a result of capacity constraints. This resulted in the finalisation of consolidated financial statements for the financial years between 1999 and 2003, and consolidated financial information for the 2003/04 financial year.

On the personnel front, National Treasury has been successful in filling 209 posts during the past financial year, despite being faced with tough competition in the labour market. Even with the natural attrition of personnel leaving the Department, this has resulted in an overall decrease in the vacancy rate from 43 per cent in 2003/04 to 15 per cent in 2004/05. Another significant development is that the department has increasingly become a learning organisation. One of the key elements is the internship programme. Forty interns were employed by National Treasury during the 2004/05 financial year. A number of these went on to find longer-term employment within the Department. The National Treasury is in the process of becoming the first port of call for aspirant young graduates, especially those wishing to commence their careers in the economics sphere.

The National Treasury Annual Report, 2004/05 clearly demonstrates our achievements over the past financial year, as assessed against the strategic plan for this period. The audited financial statements contained in the report account for the utilisation of resources appropriated by Parliament for the 2004/05 financial year. Finally, the annual report outlines the challenges that are likely to impact on future work programmes and resource allocations.



**Lesetja Kganyago**  
**Director-General: National Treasury**

## THE MINISTRY

The year 2005 marks the ninth year in which Minister Trevor Manuel has served as Minister of Finance. He has, since his appointment, helped in guiding the South African economy through various global economic crises and stayed the course to achieve macro-economic stability. In 2005 we are witnessing continued optimism and an unprecedented degree of confidence in our economic outlook. In the years ahead the Minister's attentions will be focused on achieving the desired levels of economic growth needed to address the challenges of underdevelopment and poverty.

For the period under review Deputy Minister Jabu Moleketi ably supported Minister Manuel. We are fortunate to have profited from their dynamic leadership, which is both complementary of each other and visionary in outlook. The political leadership of the National Treasury is counterbalanced with a competent technical team under the management of the Director-General, Lesetja Kganyago.

The success of the National Treasury is measured not only by the dynamism of its leadership, but also by the caliber of its staff and their commitment, dedication and loyalty. The Ministry itself is a highly pressurized environment, where a core team of dedicated and committed individuals ensures that the Minister and Deputy Minister's operational needs are met. The National Treasury continues to attract a cadre of young and talented thinkers in the fields of development finance and economics. Human Resource development remains a top priority of the National Treasury for skills retention; the Treasury therefore actively strives to foster intellectual stimulating environment where dialogue and debate are encouraged.

Both Minister Manuel and Deputy Minister Moleketi are actively engaged in various international fora as part of South Africa's commitment to create a more equitable world order, and to champion the voice of Africa, especially in multilateral institutions such as the IMF, World Bank and African Development Bank. Through the African Peer Review Mechanism and under the auspices of NEPAD, Africa has taken up its rightful place on an equal footing with our development partners to address the developmental challenges that confront us as Africans.

Africa's renaissance lies in achieving the underlying principles of NEPAD, namely good governance, conflict resolution and economic integration. South Africa will continue to champion these principles, both on the Continent and to the rest of the world. We are particularly encouraged by the G8 commitments on debt relief, as it will free up resources for African governments to spend on poverty alleviation and social upliftment programmes.



**Trevor A Manuel, MP**  
Minister of Finance

### International visits undertaken by the Minister of Finance during the 2004/05 financial year

16 - 21 May 2004	Visit to Washington DC and San Francisco, United States, to meet with Executive Directors at the World Bank and to address a conference at Stanford University Graduate School of Business.
23 - 26 May 2004	Visit to Kampala, Uganda, to attend the Africa Group 1 Constituency meeting and the African Development Bank Annual Meeting
2 - 5 June 2004	Visit to Maputo, Mozambique, to attend the World Economic Forum Africa Economic Summit
30 June - 01 July 2004	Visit to Maseru, Lesotho, to attend a Southern African Customs Union Council of Ministers Meeting
30 - 31 August 2004	Accompanied President Mbeki on a state visit to the Democratic Republic of Congo
20 - 23 September 2004	Visit to London, United Kingdom, on Commission for Africa business and to address a fundraiser for Rhodes University
28 September - 09 October 2004	Visit to Washington D.C., US, to attend the Annual Meetings of the World Bank, to Ottawa, Canada, for a CfA meeting with the Minister of Finance of Canada and the Chancellor of the Exchequer, and to Addis Ababa, Ethiopia, for a meeting of the Commission for Africa.
18 - 22 November 2004	Visit to Berlin, Germany, for a meeting of G20 Finance Ministers and Central Bank Governors.
01 - 04 December 2004	Visit to Brighton to deliver a Distinguished Development Lecture at Sussex University
25 - 30 January 2005	Visit to Davos, Switzerland, to attend the Annual Meetings of the World Economic Forum
03 - 06 February 2005	Visit to Brussels, Belgium, for a Commission for Africa Seminar with European Parliamentarians, and to London, UK, for a meeting with G7 Finance Ministers and Ministers of Finance of China, Brazil and India.
10 March - 12 March 2005	Visit to London for the launch of the Commission for Africa Report.

**International visits undertaken by the Deputy Minister of Finance during the 2004/05 financial year**

24 - 28 May 2004	Visit to Shanghai, China, to attend IMF/World Bank Global Conference on Scaling up Poverty Reduction
4 - 08 July 2004	Visit to Zurich, Switzerland, attend the FIFA World Cup meeting
18 - 20 Augustus 2004	Visit to Mauritius to attend the Eastern Southern African Anti-Money Laundering Group (ESAAMLG) of the Council of Ministers meeting
13 - 16 September 2004	Trip to Berlin, Germany, with Minister of Sport and Minister in the Presidency
27 September - 5 October 2004	Visit to Washington D.C, US, to attend the Annual meetings of the World Bank
18 - 22 October 2004	Visit to Netherlands to meet overseas investors with PIC CEO
10 - 12 November 2004	Visit to Mauritius attend the SADC Finance Ministers' meeting
13 - 19 November 2004	Visit to Belgium accompanying the President of South Africa
8 - 9 December 2004	Visit to Walvis Bay, Namibia, attend SACU Council of Ministers meeting
05 - 08 February 2005	Visit to Sudan attend the SPLM Leadership workshop

**VISION**

The National Treasury is the custodian of the nation's financial resources. We hold ourselves accountable to the nation to discharge our responsibilities professionally and with humility, and with the aim of promoting growth and prosperity for all.

We aspire to excellence in the quality of our analysis, our advice and the execution of our financial management responsibilities. We aim to realise the full potential of South Africa's economy and people and to mobilise the resources of the state, business enterprises and the wider community in a partnership of trust and mutual respect.

**MISSION AND OBJECTIVES**

The National Treasury aims to promote economic development, good governance, social progress and rising living standards through accountable, economic, efficient, equitable and sustainable management of South Africa's public finances.

We endeavour to advance economic growth, broad-based empowerment, progressive realisation of human rights and the elimination of poverty. We are responsible for preparing a sound and sustainable national Budget and an equitable division of resources between the three spheres of government.

We strive to raise fiscal resources equitably and efficiently and to manage Government's financial assets and liabilities soundly.

We promote transparency and effective financial management.

**VALUES**

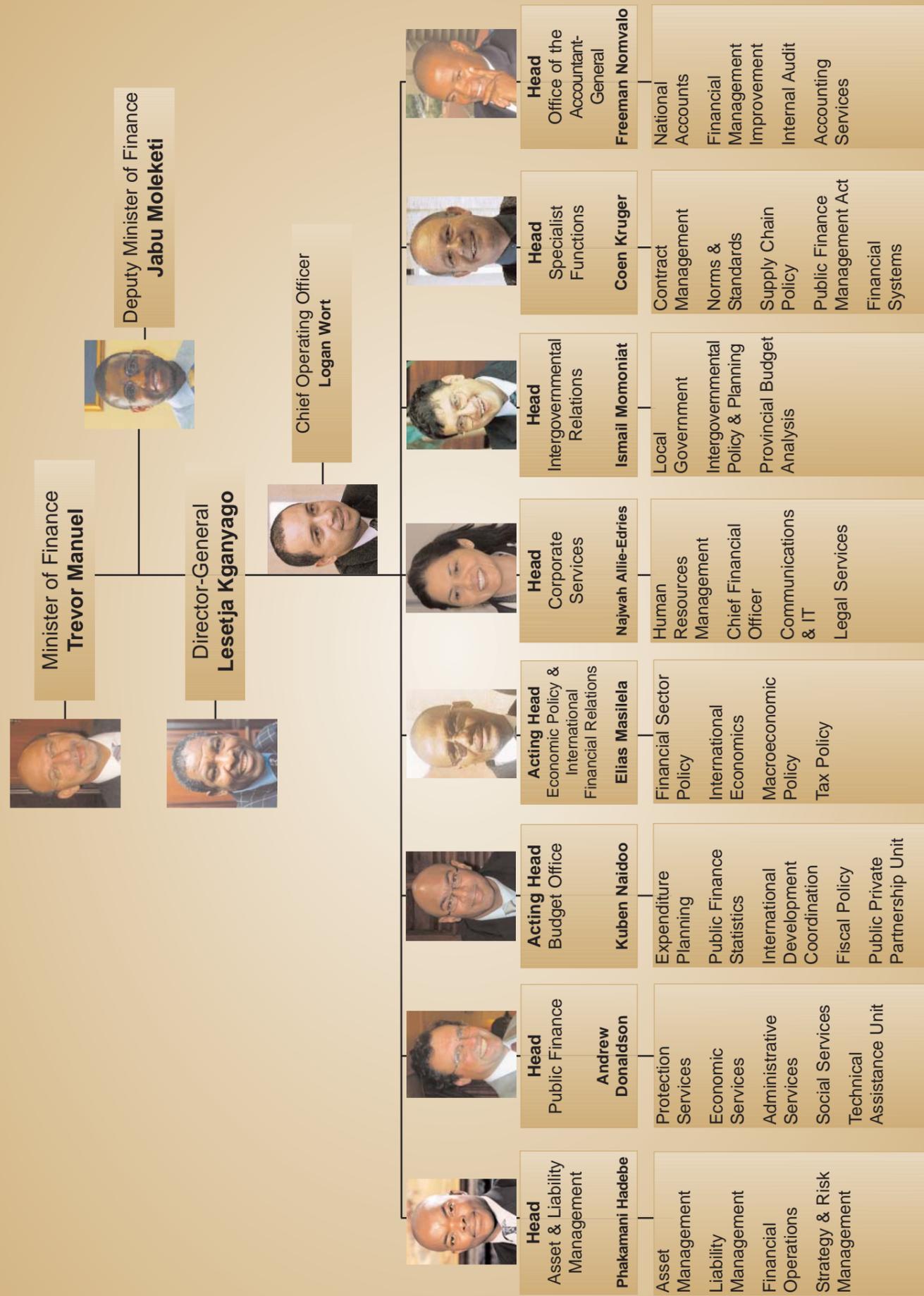
As custodians of the nation's financial resources, the National Treasury acknowledges the authority of Parliament through whom we are accountable to the nation.

We value teamwork, sound planning and enthusiasm and strive continually to improve the quality, accuracy and reliability of our service delivery.

Our people are our most valued assets. We seek to be an employer of choice, we invest in the education and training of our staff, we cultivate a learning and consultative environment, we make use of the best available technological support and we aim to mobilise the full potential of our people.

In our dealings with the public and with our colleagues we act transparently and with integrity, showing respect and demonstrating fairness and objectivity.

In achieving these things, we will honour the faith that the South African public has placed in us.



## MINISTER'S STATEMENT ON POLICY AND COMMITMENT

The preamble to our Constitution commits us to "improve the quality of life of all citizens and free the potential of each person." Our policies in the National Treasury are to ensure that our macro-economic management creates an environment conducive to achieving a better life for all our citizens. Our commitment is to build a democracy that truly cares, to engage all of Government in a battle against poverty, underdevelopment and dehumanisation.

As a government we are in tune with the aspirations of our people. Through our imbisos and mmagotlas we are profoundly aware of the need for employment, for broader participation in economic activity, for relief from the trap of persistent poverty, for housing, better education, reliable health services. These challenges have disciplined our policies and budget plans over the last ten years, and they remain firmly in mind in the growth and development strategy for the decade ahead.

Since 1996 we have persevered on a path to achieve macro-economic stability, evidenced today by sustained levels of economic growth, declining inflation, predictable and stable interest rate and an overall optimism about our economic outlook. On the strength of this success, we are able to be bolder yet in the years ahead. We are mindful that macro-economic stability is a necessary precondition, but not the only condition required for achieving the desired levels of economic growth. Whilst maintaining economic stability, our focus has now shifted to our micro-economic reform strategy to assist us in addressing the rigidities that are still prevalent in our economy.

As the National Treasury we will continue to improve on the structure and resilience of the public finances and its coordination with government's fiscal policy. The commitments we make to align government spending with broader policy objectives will require of us to build on our inter departmental co-operation to facilitate implementation by all government agencies.

Our costs of borrowing have been significantly reduced because of management improvements and concomitant improved credit ratings for South Africa. Key new responsibilities for Asset and Liability management over the next year include the development of a monitoring system for the treasuries of state owned enterprises and efforts to improve the articulation and alignment of our development finance institutions.

In the year ahead we will continue to overhaul government's procurement and supply chain management policies, standardize the financial systems of national and provincial government through the revamped Integrated Financial Management System and continue to implement the Public Finance Management and Municipal Finance Management Acts.

The key challenges for Provincial and Local Government relate to the matching of appropriations with actual spending. We have set a high priority on regular quarterly reports on infrastructure expenditure and maintenance to counteract the slow pace of infrastructure spending. A further challenge for Local Government, where the formula for equitable shares has been improved and where the Municipal Finance Management Act is being rolled out, is to improve on the efficiency of financial management.



## LEGISLATIVE MANDATE

The fight against poverty is not solely a South African challenge; it must be waged in the international arena. We have to remain active and engaged in a series of international fora - in the IMF and World Bank and the Development Committee that oversees these institutions' strategic thinking; in the World Customs Organisation, in the G 20 on financial stability; in the United Nations, in the OECD, which for us is a learning centre; and in the World Trade Organisation, in support of the Ministry of Trade and Industry. We will continue to do battle to have our voices heard, we will continue to carry a democratic and progressive message into the forums of international discourse with which we engage.

On the continent we are involved with the building of stronger institutions - both pan-African such as the African Development Bank and the African Union, and sub-regionally, as in the case of SADC or SACU. We are called upon from time to time to assist with capacity building. Further we are afforded the opportunity to engage in advocacy on behalf of the Continent - my participation in the Commission for Africa was a great opportunity for learning and sharing and preparing the African case for the G8 meeting held at Gleneagles in July 2005.



**Trevor A Manuel, MP**  
**Minister of Finance**

The National Treasury has a legislative mandate to promote the national Government's fiscal policy framework and the coordination of macroeconomic policy; to coordinate intergovernmental financial and fiscal relations; manage the Budget preparation process and to promote and enforce transparency and effective management in respect of revenue and expenditure, assets and liabilities, public entities and constitutional institutions.

### Parliamentary Services

The Minister of Finance, as a Member of Parliament, places a high premium on the Ministry's interaction with Parliament. The Ministry ensures active collaboration with members of Parliament and with the parliamentary committees on an ongoing basis. Key to this objective is the Parliamentary Office located in the Ministry.

Parliamentary Services has to foster a transparent and cooperative working environment with Parliament. It is the representative office of the Minister of Finance at Parliament and the vehicle through which financial policies and legislation are presented to Parliament for consideration and approval.

The Parliamentary Office facilitates the flow of information from the National Treasury via Cabinet to Parliament. It serves a liaison role by ensuring that parliamentary decisions are forwarded to the National Treasury and, in this way, policy drafters are kept abreast of the views of public representatives. The Parliamentary Office is essentially a service provider to the Minister of Finance, the three departments under his executive authority (the National Treasury, the South African Revenue Service and Statistics SA) and the two chairpersons of the respective Finance Committees in Parliament.

### The key functions of Parliamentary Services include:

- Keeping the Minister informed of his parliamentary commitments;
- Ensuring that presentations and speeches are prepared;
- Accompanying the Minister and his senior officials to meetings and parliamentary sittings;
- Liaising with political parliamentary structures, for example, the Chief Whip's Office and the Office of the Leader of Government Business on behalf of the Minister;
- Providing the Minister with parliamentary procedural support;
- Facilitating the drafting of answers to questions posed to the Minister for submission to Parliament;
- Advising the parliamentary committee chairpersons on the legislative programme; and
- Ensuring that legislation is timeously placed on the committee agenda and that senior officials brief the committee to facilitate meaningful deliberations on legislation, policy documents and areas of economic interest, that the committee wishes to focus on.

## LEGISLATION ENACTED

The National Treasury tables in Parliament legislation annually, which can be categorised as follows:

- Legislation conceptualised and prepared in-house;
- Legislation prepared by such regulatory bodies as the Financial Services Board and the South African Reserve Bank, with National Treasury providing policy direction;
- Tax legislation prepared jointly with the South African Revenue Services. The National Treasury provides policy direction.

Following is a list of legislation tabled in Parliament during the 2004/2005 financial year to date:

1. **Appropriation Act, (15 of 2004)**  
Bill enacted: Appropriation Bill [B3 -2004]  
English text signed by the President. Assented to on 22 July 2004  
Published in Government Gazette No. 26611 dated 27 July 2004
2. **Taxation Laws Amendment Act, (16 of 2004)**  
Bill enacted: Taxation Laws Amendment Bill [B8 - 2004]  
English text signed by the President. Assented to on 22 July 2004  
Published in Government Gazette No. 26612 dated 27 July 2004
3. **Government Employees Pension Law Amendment Act, (21 of 2004)**  
Bill enacted: Government Employees Pension Law Amendment Bill [B15 - 2004]  
English text signed by the President. Assented to on 8 November 2004  
Published in Government Gazette No.26978
4. **National Payment System Amendment Act, (22 of 2004)**  
Bill enacted: National Payment System Amendments Bill [B14D - 2004]  
English text signed by the President, Assented to on 28 October 2004  
Published in Government Gazette No.26949 dated 30 October 2004
5. **Public Investment Corporation Act, (23 of 2004)**  
Bill enacted: Public Investment Corporation Bill [B6B - 2004]  
English text signed by the President. Assented to on 11 December 2004  
Published in Government Gazette No. 27100 dated 15 December 2004
6. **Finance Act, (26 of 2004)**  
Bill enacted: Finance Bill [B13 - 2004]  
English text signed by the President. Assented to on 28 November 2004  
Published in Government Gazette No. 27041

7. **Securities Services Act, (36 of 2004)**  
Bill enacted: Securities Services Bill [B19B - 2004]  
English text signed by the President, Assented to on 18 January 2005  
Published in Government Gazette No. 27190 dated 24 January 2005
8. **Financial Services Ombud Schemes Act, (37 of 2004)**  
Bill enacted: Financial Services Ombud Schemes Bill [B20 - 2004]  
English text signed by the President. Assented to on 4 February 2005  
Published in Government Gazette No. 27265 dated 9 February 2005
9. **Adjustments Appropriation Act, (27 of 2004)**  
Bill enacted: Adjustments Appropriation Bill [B21 - 2004]  
English text signed by the President. Assented to on 1 December 2004  
Published in Government Gazette No. 27060
10. **Revenue Laws Amendment Act, (32 of 2004)**  
Bill enacted: Revenue Laws Amendment Bill [B 24 - 2004]  
English text signed by the President. Assented to on 18 January 2005  
Published in Government Gazette No. 27188 dated 24 January 2005
11. **Second Revenue Laws Amendment Act, (34 of 2004)**  
Bill enacted: Second Revenue Laws Amendment Bill [B25 - 2004]  
English text signed by the President. Assented to on 18 January 2005  
Published in Government Gazette No. 27189 dated 24 January 2005
12. **Division of Revenue Act, (1 of 2005)**  
Bill enacted: Division of Revenue Bill [B8B - 2005]  
English text signed by the President. Assented to on 30 March 2005  
Published in Government Gazette No. 27443 dated 1 April 2005  
Assented to on 30 March and published in the Gazette on 31 March 2004

## PROGRAMME 1

### ADMINISTRATION

**Purpose:** Administration provides strategic management, policy advice and administrative support to the National Treasury.

**Measurable objective:** The programme aims to provide effective leadership, management and administrative support to the core business divisions through continuous refinement of organisational strategy and structure, in compliance with applicable legislation and best practices.

The programme is divided into four subprogrammes:

- The Minister subprogramme provides for the Office of the Minister of Finance and includes Parliamentary and Ministerial support services;
- The Deputy Minister subprogramme provides for the Office of the Deputy Minister of Finance and related support services;
- The Management subprogramme provides for the funding of the Office of the Director-General and related support services; and
- Corporate Services supports the administration and smooth running of the department.

#### Service Delivery Objectives and Indicators

##### Recent outputs

The *Corporate Services* division manages the *Administration* programme. The division is responsible for financial management and administration within the National Treasury and aims to create a productive and creative working environment that enhances departmental efficiency. The division has developed a Client Charter and has conducted a client survey. The results of the survey will be used for the drafting of implementation plans to improve service delivery. The *Corporate Services* division consists of six units - *Human Resources Management, Financial Management, Legal Services, Security Management, Facilities Management, and Communication and Information Technology* - that provide the backbone support-service operations to the core business of the National Treasury.

The *Financial Management* unit focuses on compliance with all relevant financial statutes and regulations, the most important of which is the Public Finance Management Act (1 of 1999) (PFMA). Despite the resignation of the Chief Financial Officer during the financial year of 2004, the unit managed to achieve its key objectives. Its main outputs for the year included performing secretariat duties for both the Audit Committee (AC) and Risk Management Committee (RMC), as well as implementing recommendations and decisions emanating from these committees, in particular, issues that impact materially on compliance with legislation and mitigation of risk.

Also, significant progress has been achieved on the streamlining of procurement and supply-chain processes. For example, the unit has reduced turnaround times to an average

of 26 days for invoice payment, while at the same time significantly improving controls and the processing of requisitions and orders. Greater transparency has been enforced in the movement of requisitions, orders, invoices and payment of supplier accounts, which, in turn, has reduced external and internal queries. Further achievements for the year relate to refinement in managing contract performance through effective overall management of service-level agreements with all suppliers and service providers. To date, 58 contracts have been awarded, with 45 of these contracts going to HDI companies, 42 to companies with majority BEE ownership and 16 contracts to women-owned companies.

To ensure better tracking of assets, an asset-management function has been established, which includes maintaining an accurate record of assets. With assistance from the Information Technology (IT) directorate, there is now better tracking of all IT equipment through tagging and configuration before installation on site. Tighter controls have also been implemented to ensure compliance with the Division of Revenue Act in the case of transfer of funds. Also, there was strong reigning-in of weaknesses in the controls over medical expenditure, which were raised as an emphasis of matter in the Auditor-General's report for the 2003/04 financial year. As from 1 July 2005, a system for effective internal control will be activated.

The *Human Resources Management* unit focussed on positioning the National Treasury as an employer of choice during 2004/05 financial year. To achieve this, the National Treasury implemented a competency-based recruitment system, undertook headhunting and developed networks with professional bodies and universities. Also, a core behavioural competency framework has been developed, which outlines critical competencies for the National Treasury to assess the potential of senior management employees during recruitment.

As a result of the above initiatives, 209 employees were appointed and/or transferred to the National Treasury. Through an internship programme, 40 trainees were appointed, and 17 were retained from 28 interns, who were appointed during the 2003/04 financial year. In support of individual learning plans, a number of in-house training programmes were implemented to further enhance the skills within the Department. To address retention challenges faced by the National Treasury, additional employee benefits, such as negotiated rates and products from various banks, were also implemented. To ensure high employee satisfaction at the National Treasury, a culture and client survey was conducted during June and July 2004, and its recommendations will be implemented in the next financial year 2005/06.

A Client Charter to further improve the unit's performance and service delivery has been developed. Furthermore, a number of human-resources policies have been developed to fine-tune the human resources processes, systems and procedures in line with best practice and legal requirements. The unit also complied with all the legislative requirements.

*Legal Services* is responsible for providing a comprehensive and diverse legal support service to the Minister, Deputy Minister and all the divisions of National Treasury within

the confines of constitutional and legal prescripts. During the year under review, the unit became involved in the successful passage of the Division of Revenue Act (1 of 2005); Financial Services Ombudsman Schemes Act (37 of 2004); and in the drafting of the Public Private Partnership Regulations. Also, the unit has had to comment on a number of Bills and regulations for example, the Immigration Regulations, Kickboxing Regulations, National Ports Authority Bill and Sectional Titles Bill, and draft the President's Minute for the appointment of the Governor of the Reserve Bank as well as its Board of Directors.

The work of the *Legal Services* unit is often varied and, as a result, it became involved in providing training on the legislative process to National Treasury employees, advising the National Treasury on the Government's shareholder rights in Telkom in view of the possible of exit of Thintana as a shareholder. The unit also drafted legal documentation for the implementation of the retail bonds, provided legal advice to the Guarantee Certification Committee of the National Treasury, advised on the memo and articles of association of the Public Investment Corporation, assisted in resolving legal issues arising out of the retrenchment of the former employees of the Public Investment Corporation; and successfully defended the Minister on various matters.

Over the past year approximately 40 significant litigious matters were dealt with involving the following:

- Constitutional challenge of the Exchange Control Act and Regulations, Customs and Excise Act, Regional Services Council's Act, Insider Trading Act;
- Award of tenders by the State Tender Board;
- Labour; and
- Contracts

The *Information Technology* unit has continued to build on its excellent service delivery to all stakeholders, with systems availability surpassing expectations and the successful upgrading of network operating systems. The Centurion premises have been upgraded to a fault-tolerant data network, which includes voice infrastructure. With the implementation of an effective anti-virus system, external threats have been minimised and disaster-recovery plans have proven to be effective. Over the past year, to improve service delivery, the unit assisted in the successful implementation of the RSA Retail Bonds, Standard Chart of Accounts, Amnesty Unit web application and the acquisition of a central service desk tool for the Corporate Services division is in the final stages. In conjunction with the State Information Technology Agency, the project of implementing a mobile computing environment is to be finalised during 2005.

During the 2004/05 financial year, the *Security and Facilities Management* unit was separated into *Security Management* and *Facilities Management*. The *Security Management* unit's structure was reviewed to enforce all prescripts and standards set by national institutions, such as the National Intelligence Agency (NIA), the South African Police Service (SAPS) and the National Archives of South Africa (NASA). Considerable progress has been made in complying with the Minimum Information Security Standards

(MISS) policy, and at least 111 employees within the National Treasury have been awarded security clearance certificates. Security breaches have also been reduced by 50 per cent as a result of the upgrading of the electronic security system at the 40 Church Square building, regular communication and the implementation of the Security Awareness programme by the NIA. About 176 National Treasury employees have attended this Programme. A security manual, which guides the staff and clients on security practices, has also been drafted and will be circulated once approved.

The *Security Management* unit continued to strive towards ensuring a healthy, safe and secure business environment during various events, such as the Ministers' Lekgotla, the Third World Roundtable conference and so on, that were hosted by the National Treasury.

The *Facilities Management* unit filled two vacancies that are critical to ensuring customer satisfaction. Key developments during the 2004/05 financial year included the successful refurbishment of four floors for the Economic Policy and International Financial Relations division, the relocation of the Communications unit to 40 Church Square, and the refurbishment of office space at the SITA building in Centurion.

The *Communications* unit, reporting to the office of the COO, continues to act as a strong media liaison portal for the Ministry and the National Treasury. In the past financial year, the unit has been successful in organising a Town Hall meeting with the objective of bringing the Budget to the people in Cape Town, which was attended by more than 200 people. The unit undertook two media lock-ups during the Medium Term Budget Policy Statement (MTBPS) and two during the Budget period for Pretoria and Cape Town. The unit also coordinated the "Bring a Girl Child to Work Day" within the National Treasury and assisted other divisions with media-related issues such as editing, sending out agenda, setting press releases and statements, and placement of edited speeches on the website. The Communications unit also works closely with other government Departments and participates in intergovernmental communications fora by attending pre-Cabinet and cluster meetings.

### Service Delivery Achievement

#### Programme 1: Administration

Subprogramme	Output	Output performance Measurement/service delivery indicators	Actual performance against target		
			Target	Actual	
Corporate Services	Ensure full compliance with PFMA	Report audit	Unqualified audit	Achieved	
	Implement the transformation programme through restructuring and enhanced HR systems	% of policies and procedures finalised	100% finalisation of policies and procedures by 31 March 2004.	83% implemented 20% being consulted 17% being developed	
	Improve leverage of IT investment	% implementation of new and updated IT systems	100% implementation of technical designs by June 2004	Achieved	
	Provide diverse legal and legislative services	Meet divisional legal services needs in terms of time and quality	Throughout 2004/05 as required by divisions	Achieved	
		Draft Bills of quality, introduced on time	As determined by the relevant divisions	Achieved	
		Cost-effective litigation		Achieved	
		Services Charter and streamlining of processes and procedures	31 December 2004	Charter drafted, client survey conducted Currently planning for implementation of survey recommendations	
		Ensure that National Treasury is an employer of choice	Develop policy and systems to attract, motivate, develop and retain talent	31 December 2004	Strategies implemented

Subprogramme	Output	Output performance Measurement/service delivery indicators	Actual performance against target	
			Target	Actual
		Healthy and safe hygienic business environment	Structure and system in place by 31 December 2004	Emergency plan in terms of the Occupational Health and Safety Act is in final draft.
		Modern facilities (work area, refurbished building, security system etc)		Refurbishment of four floors in Vreemden Street building.

## PROGRAMME 2

### ECONOMIC PLANNING AND BUDGET MANAGEMENT

**Purpose:** To provide professional advice and support to the Minister of Finance on economic and fiscal policy, international financial relations, financial regulation, tax policy, intergovernmental financial relations, public finance and the management of the annual budget process

**Measurable objective:** The programme aims to ensure sound economic, fiscal, financial and tax policies; an equitable division of revenue between the national, provincial and local spheres of government; and coherent and well-balanced departmental plans and budgets.

These functions are organised into four separate subprogrammes:

- *Public Finance* is responsible for economic and financial advice on social, economic, administrative and protection services, and for the National Treasury's relations with other national Departments. A Technical Assistance unit, co-funded by the European Union, supplements these activities through project management and capacity-building support for reconstruction and development projects;
- The *Budget Office* provides fiscal policy advice, oversees the national Budget process, coordinates international technical assistance and donor finance, supports public-private partnerships (PPPs), and compiles the public finance statistics;
- *Intergovernmental Relations* coordinates fiscal relations between national, provincial and local government and promotes sound provincial and municipal budgetary planning, reporting and financial management; and
- *Economic Policy* is responsible for macroeconomic analysis and policy advice, the management of international financial relations, tax policy analysis, and financial sector policy advice. The division also coordinates its activities with the Reserve Bank on the supervision and regulations of banking and exchange control, the Financial Services Board (FSB) in relation to non-banking financial services, and the Financial Intelligence Centre (FIC) in relation to anti-money-laundering measures and combating the financing of terrorism.

#### Service Delivery Objectives and Indicators

##### Recent outputs

###### *Budget Office*

Much of the work of the *Budget Office* is focused on coordinating the budget process, providing advice to the Ministers' Committee on the Budget and monitoring fiscal and public expenditure trends.

The *Fiscal Policy* unit plays a leading role in monitoring economic and fiscal trends and advising the Minister of Finance on fiscal policy options and the budget framework. It is responsible for the annual Budget Review, the Medium-Term Budget Policy Statement and inputs to the deliberations of the Ministers' Committee on the Budget.

Over the past year, policy advice and analysis focused on public service remuneration issues, including options for extending medical scheme membership, pay progression and personnel mobility. It also looked at capital-spending plans of government Departments, provinces and public entities; and improved budgeting and planning processes for infrastructure investment and maintenance; fiscal sustainability, debt finance and budget deficit trends; and the contribution of fiscal policy and the budget to economic growth and development.

The *Fiscal Policy* unit is extensively involved in interdepartmental budgetary and policy consultation, including support for the Department of Public Service and Administration (DPSA) relating to public-service wage-bargaining issues, liaison with the Department of Trade and Industry on critical infrastructure planning and budgeting, and participation in the National Economic Development and Labour Council (NEDLAC) Public Finance Chamber.

Much of the *Medium-Term Expenditure Planning* unit's work is focused on the coordination of the Budget process in preparation of the annual Estimates of National Expenditure. Key activities over the past year were mainly on supporting national Departments' refinement of "measurable objectives" to accompany expenditure estimates for the main subdivisions of parliamentary appropriations. Further improvements were made on the Treasury Guidelines for preparing budget submissions and published budget documents by Departments.

To improve reporting, the team participated, including the National Treasury, the Auditor-General and the DPSA, in the preparation of a framework to guide performance reporting across the Government. Work was accomplished jointly with the Presidency and other central administration departments to strengthen overall planning, monitoring and evaluation of public service delivery. Also, policy options and spending reviews were compiled to assist the Ministers' Committee on the Budget in the assessment of medium-term expenditure priorities.

South Africa's approach to expenditure planning and budget coordination has attracted considerable international interest. A Collaborative African Budget Reform Initiative (CABRI) was launched in 2004, bringing together representatives of the Finance Ministries of several African countries to share experiences and strengthen budget reform programmes.

The *International Development Cooperation (IDC)* unit is responsible for the establishment of an effective and efficient policy framework and management system to deal with Official Development Assistance (ODA) to South Africa.

In the past financial year, its work focused primarily on:

- Developing a policy framework and procedural guidelines for the management of ODA flows into South Africa;
- Enhancing ODA coordination, both at macro and implementing-agency level;
- Assisting in the establishment of the South African Development Counsellors Forum, which is coordinated and headed by the IDC unit;

- Participating in annual consultations on progress of implementation and programming - 15 such consultations were undertaken in the year under review;
- Building capacity for ODA management in terms of both formal training at agency level and strategic engagement around ODA issues with core stakeholders;
- Contributing to ODA reform in line with internationally agreed policy principles and strategies, such as the harmonisation and alignment of aid, recipient empowerment and institutional reform; and
- Enhancing ODA information management through the establishment of a central ODA management information system, the Development Cooperation Information System (DCIS).

The *Public Finance Statistics* unit focuses mainly on the production of appropriately classified fiscal data for the publications of Treasury in support of the PFMA and for submission to the International Monetary Fund (IMF) in terms of international agreements.

The implementation on 1 April 2004 of the new *Economic Reporting Format and Standard Chart of Accounts* (SCOA) was accompanied by a concerted change-management effort during 2004/05. To date, approximately 700 chart-related queries have been successfully resolved by the Technical Committee and 2 900 financial practitioners have attended the training workshops. A single-day strategic workshop has been successfully piloted and will be offered to senior managers in the public service.

The main highlights of the *Public Finance Statistics* unit during 2004/05 included:

- Addressing transitional issues by National Statistics related to the implementation of Standard Chart of Accounts (SCOA) in April 2004;
- Managing the national database, which is critical for compiling the Estimates of National Expenditure;
- Maintaining the database of provincial statistics and providing high-quality inputs to the various National Treasury publications. Provincial Statistics also completed significant improvements to the database structure;
- Undertaking further reclassification of statistics of close to 130 provincial departments in collaboration with the South African Reserve Bank; and
- Developing and facilitating a course on working data for the members of Provincial Statistics and establishing a database workgroup to enhance peer learning and capacity building between provinces.

General Government Statistics has increased the number of public entities under budget coverage by 44% in the past year. This will help in the preparation of consolidated statistics for the General Government accounts. Work has also been undertaken on impact analysis of changes to VAT legislation on the public entities listed in Schedules 3A and 3B of the Public Finance Management Act (1 of 1999). In addition, General Government Statistics actively participated in the Public Entities Review project organised by the National Treasury

The *Public-Private Partnership (PPP)* unit regulates PPPs in terms of Treasury Regulation 16 to the PFMA, and in terms of PPP regulations to the Municipal Finance Management Act (56 of 2003). The municipal PPP regulations were introduced in early 2005, giving rise to a new set of responsibilities for the Unit.

In 2004, the unit launched the PPP Manual and Standardised PPP Provisions for institutions implementing service-delivery PPPs in terms of the PFMA. These comprehensive documents establish best practice benchmarks for overall management of South African PPPs, and include the Code of Good Practice for Black Economic Empowerment (BEE) in PPPs.

Two important BEE initiatives were launched by the unit in 2004/05. The first resulted in a new financing facility offered by the Development Bank of Southern Africa to black shareholders in PPP projects, and supported pre-qualified black parties with independent legal and financial advice. The second is an internship programme for young black post-graduates, which will increase the number of black advisors in the PPP market. By early 2005, 10 interns were placed in transaction advisor teams on PPP projects and will be employed for a two-year period in the PPP unit.

The *Project Development Facility* (PDF), which was established as a National Treasury trading account by the PPP unit in 2003, had committed more than R12 million in transaction advisory support to institutions undertaking PPPs by the end of 2004/05. A capacity survey of five provincial treasuries was completed to assess their ability to appraise PPPs and other large capital projects. Moreover, case studies on four pioneering PPP projects had also been commissioned in 2004/05. Sector-specific PPP workshops were held to focus on projects and processes in health, fleet management, ICT and tourism during 2004/05. These involved more than 1 000 delegates from the public and private sectors.

By the end of the 2004/05 financial year, the PPP unit records showed 53 registered PPP projects in various stages of the project cycle. Projects entering the procurement phase at the start of 2005/06 included, among others, Gautrain Rapid Rail, Gauteng government precinct, Department of Foreign Affairs head office, South African Revenue Services container scanners, Eastern Cape pharmaceutical supply chain, Limpopo Ellisras, Phalaborwa, Duiwelskloof co-location hospitals and linen services, and Western Cape Hermanus, Swellendam, and Lentegeur hospitals.

### *Public Finance*

The *Public Finance* division is responsible for liaising with other national Departments on policy, planning, budgeting and financial management, and provides analysis. It also provides advice on Budget submissions for consideration by the Medium Term Expenditure Committee and the Ministers' Committee on the Budget.

During the 2004/05 financial year, Economic Services policy analysis and advice focused on enhancing coordination and improving human settlements by encouraging banks to lend in low-income areas, to ensure that low-cost housing financing does not lead to systemic risks for the financial sector, and developing a framework for funding community infrastructure. Significant progress has been made in the restructuring of

the Postbank, with the signing of a memorandum of understanding between the Minister of Communications and Minister of Finance to ensure the Postbank is on sound financial footing and appropriate governance arrangements are in place.

- In mid-2004/05, a new micro-credit scheme for agriculture was proposed by the Department of Agriculture. The Economic Services team assisted with commentary on the early draft of the business plan for the micro-credit scheme. It is envisaged that this scheme will be operational by mid 2005. The National Treasury has initiated a study on the impact of the land-reform programme on agricultural development. In addition, studies have been undertaken by the Human Sciences Research Council (HSRC) and PLAAS in some provinces to provide in-depth analysis of progress made to date and to assess policy instruments to ensure emerging farmers are productive and profitable.
- A conditional grant to underwrite post-settlement support of emerging farmers by provincial agriculture departments was introduced in the 2004 Budget, and consultation with World Bank experts helped remove barriers to the subdivision of agricultural land and addressed distorting features of the property tax environment.

*Administrative Services* consists of three divisions that are responsible for central government Departments (including Home Affairs and Foreign Affairs), financial and administrative departments (including National Treasury and Statistics SA) and the Departments of Public Works; Provincial and Local Government; and the South African Management Development Institute (SAMDI).

Areas in which the team played a significant role during 2004/05, were:

- Home Affairs - Supported the Department of Home Affairs in the review of tariffs charged for services rendered by the Department;
- Provincial and Local Government - Provided guidance for budget planning following the decision to bring forward the implementation of the Municipal Infrastructure Grant (MIG);
- Public Works - Coordinated four areas of the Expanded Public Works Programme namely the Social, Economic, Environment and Infrastructure sectors, in a drive to create new jobs and reduce poverty. Provided support for the Tshwane inner-city project, which aims to improve the head office accommodation of 28 national Departments; and
- Statistics SA - Provided technical support relating to the revision of baseline allocations to accommodate a community survey in 2007.

The Justice and Protection Services team was responsible for three constitutional institutions (the SA Human Rights Commission, the Commission on Gender Equality and the Public Protector) and four public entities (the Legal Aid Board, the Special Investigating Unit, the Castle Control Board and Armscor). The team has been instru-

mental in guiding and providing technical assistance in key project proposals of departments. These included:

- Clearing the suspense account of Justice and Constitutional Development;
- The establishment of an Interdepartmental Joint Budget Task Team to assess the adequacy of the budget of Justice and Constitutional Development;
- Monitoring the planning and financing of Correctional Services capital projects, and assessing PPP prisons;
- A review of the cost estimates of the strategic armaments procurement programme and proposals for adjustments;
- Facilitating negotiations regarding the transfer of excess Defence Force personnel to the Protection and Security Services Division of the SAPS;
- Initiating a process to amend the Defence Special Account Act (6 of 1974) to align it with current financial policies; and
- Advice on measures to effect budget reforms in the Intelligence Services Departments.

The unit further leads a *Justice Crime Prevention System (JCPS)* cluster initiative to build a common database and a model to predict detainee numbers, to identify practical steps to reduce prison overcrowding and eliminate the Integrated Justice Cluster (IJS) blockages. A valuable IJS seminar was held during 2004/05 regarding IT development and its role in the improvement of service delivery, providing an opportunity for the exchange of ideas between researchers and departmental planners.

The *Social Services* unit ensures appropriate sectoral financing, primarily through the central government budget, but also through other appropriate mechanisms (such as dedicated taxes in the case of the Unemployment Insurance Fund, PPPs and the generation of own, direct revenue).

The main areas of focus for the team were:

- Strengthening support for education by aligning the activities of interdepartmental and intergovernmental processes around sectoral priorities with the budget allocation process. Consequently, the 2005 Budget substantially increased funding for educator remuneration (educator pay progression and incentive schemes), recapitalised Further Education and Training colleges and further strengthened the National Student Financial Aid Scheme;
- In the area of health services, the team assisted the analysis and refinement of provincial health budgets, and the assessment of the Health Department's Report on *Modernising Tertiary Health Services*. Other key areas of focus were reviewing conditional grant funding, evaluating proposals for Social Health Insurance, reviewing the public sector medical scheme, supporting the transfer of forensic

pathology services to provincial health departments, analysing and advising on medicines regulations, assisting in the tender processes for anti-retroviral medicines and monitoring and supporting public entities such as the Medical Research Council, the National Health Laboratory Service, the Compensation Fund for Occupational Diseases and PPPs in the health sector;

- Work in the area of social development concentrated largely on the establishment of interim funding mechanisms to prepare for the transfer of the social assistance function to national Government and the South African Social Security Agency in 2006. This spanned the development of credible provincial allocations by grant type per province, the setting up of dedicated financing flows (bank accounts and related accounting arrangements) for the two new conditional grants (the Social Assistance Grant Transfer conditional grant and the Social Assistance Administration conditional grant) and support for the development of a monitoring framework for the conditional grants. A key focus was on understanding the trends in disability grants better, and to support efforts to improve administration of these grants. This was done through a joint initiative with the Department of Social Development (the Disability Management Initiative) and inputs into Cabinet deliberations on the definition of disabilities. The unit also participated in extensive processes around the Children's Bill and the Older Person's Bill and, more broadly, supported efforts to develop frameworks for the provision and funding of welfare services;
- On labour issues, focus was on supporting two key policy and strategy processes, namely the Child Labour Action Programme and the review of the National Skills Strategy. This meant extensive interaction on the viability of providing greater autonomy to the Unemployment Insurance Fund, which included assessing adequate levels of reserves to be held by the Fund; and
- Key activities that were dealt with by the *Sport and Recreation* unit revolved around the incorporation of the South African Sports Commission into the national Department and support for the FIFA World Cup to be hosted in South Africa in 2010.

The *Technical Assistance* unit (TAU), co-funded by the European Union, provides technical and (project) management and advisory support to a variety of government initiatives and donor-funded programmes that are aimed at capacity building and promoting good governance.

Among others, the unit's work during the year under review included:

- Assistance to the Department of Education with the transfer of the primary-school nutrition programme from provincial health departments;
- Assistance to the Department of Education on the school-building programme which is supported by the European Union;

- Design and implementation of an Infrastructure Delivery Management System to strengthen overall infrastructure investment and maintenance projects, particularly in the nine provincial departments of education;
- Implementation of a municipal economic development strategy on economic linkages (for example, value-added in tourism or agriculture) as reflected in local integrated development plans;
- Assistance with tendering processes and project coordination for the implementation of the DNA Laboratory of the SAPS, which is supported by the EU;
- Support to EU-funded local economic development programmes in KwaZulu-Natal department of economic affairs and tourism and the provincial treasury in the Eastern Cape;
- Support to the National Treasury on the Soccer World Cup;
- Support for the establishment of the South African Social Security Agency; and
- Support to the EU-funded higher education AIDS programme.

A large part of the unit's budget and donor funding in 2004/05 was devoted to the establishment and development of the Infrastructure Delivery Improvement Programme in the Intergovernmental Relations branch. This initiative was implemented in partnership with the Construction Industry Development Board and the Development Bank of South Africa. The unit also hosted Project Management Interest Group Meetings together with GCIS and the DPSA to enhance the capacity of government officials to deliver on implementation through shared experiences and good practice.

#### *Economic Policy and International Financial Relations*

The *Macroeconomic Policy* unit's main responsibility is to track and monitor the general health of the South African economy and to provide forecasts using econometric and other models. In 2004, the unit focused on strengthening understanding of bottlenecks in the economy and identifying constraints that hamper growth and alternative solutions to the problem.

Particular attention was given to the transport, mining, construction and financial sectors.

- The findings of the six studies on administered prices that were undertaken in 2003 were consolidated and recommendations were forwarded to Cabinet and accepted in October 2004. Briefly, the recommendations included continuing work on administered prices by the interdepartmental task team and proposing the adoption of a forward-looking approach to price setting. The *Macroeconomic Policy* unit also worked closely with Statistics South Africa in developing a discussion document on the definition of administered prices and the administered prices index. The document was published for public comment and comments received at the end of October 2004. The index of Administered Prices will be officially launched in the second half of 2005.

- During 2004, the unit forged closer cooperation with the South African Reserve Bank on a number of issues that entailed the management of inflation expectations, options around inflation targeting and reserve management. Other areas were the full application of the CGE model during 2004, including a CGE workshop, mostly in areas of policy concerned with analysis of the distributional impacts of the rand's appreciation, the fuel levy and other tax proposals. Partnerships have also been formed with the World Bank and other national institutions that have CGE models.
- The unit has continued to monitor the attainment of the Growth and Development Summit (GDS) targets, and is involved in task teams responsible for the implementation of the Financial Sector Charter through a representative in the Charter Council, and together with the Economic Services unit work closely with the Department of Housing on the mortgage securitisation for low-income households. Extensive work is being done through the unit's involvement in the Economic and Employment Cluster towards the achievement of a more integrated approach to economic growth and engagements with NEDLAC constituencies also in the areas of policy options to grow savings, definition of administered prices and fine-tuning the administration prices index, and mining recovery plan. Other issues included an analysis of the dichotomous nature of the South African Labour Market; and a review of the skills-employment-wage nexus

The *Tax Policy* unit is responsible for advising the Minister of Finance on tax policy issues that arise at all three levels of Government. The unit has to design tax instruments that take into account the principles of good taxes, such as equity, efficiency, certainty and simplicity. It is important that the tax system raises sufficient revenue for the fiscus, supports economic growth and agreed social policy objectives. In order to ensure an effective interface between tax policy objectives and administration of the tax system, the National Treasury has partnered closely with the South African Revenue Service (SARS), resulting in ever-improving efficiency in tax policy design and the collection of revenue. To complement this unique relationship, the unit consults widely within and outside government to ensure efficient and effective tax policy choices.

An important part of the unit's programme is the formulation of tax proposals and the drafting of Chapters 4 of the annual Budget Review and the MTBPS. Research on retirement fund tax reform and the taxation of medical aid contributions was initiated during the fiscal year 2004/05. South Africa won the bid to host the 2010 FIFA Soccer World Cup and work commenced to give effect to the tax related guarantees that Government signed as part of the conditions to host the World Cup. Consultation with the Departments of Water Affairs and Forestry, Environmental Affairs and Tourism, Minerals and Energy, and Trade and Industry on various policy issues regarding user charges, earmarked levies and environmental charges were concluded.

Ongoing inputs were provided into the Southern Africa Development Community's (SADC) process to draft a Finance and Investment Protocol, which includes agreements on the coordination of taxes within the region. As an observer to the Fiscal Affairs Committee of the OECD, inputs were provided to debates on tax policy issues at this level.

The *Tax Policy* unit also undertook the following key activities during 2004/05:

- Revenue estimation for the MTBPS and the annual Budget and the publication of monthly revenue reports;
- Inputs into the drafting of two taxation amendment Bills and presentations to the Parliamentary Portfolio Committee on Finance;
- Review of the tax treatment of motor vehicles allowances with a view to limit the abuse of the deemed kilometre provisions;
- Redrafting of the Mineral and Petroleum Royalty Bill, incorporating comments received on the first draft;
- Completion of a draft policy paper on Environmental Fiscal Reform based on comments and inputs received following the publication of a discussion document on this topic in 2003; and
- The unit provided inputs into proposals to reform or replace the RSC levies and comments on the new Municipal Property Rates Bill.

The *Financial Sector Policy* unit is responsible for advising the Minister of Finance on policies aimed at promoting the growth, development and stability of the financial sector. This is achieved through interaction and dialogue between the National Treasury, regulatory bodies, consumer groups and the industry at large.

During the year in review, the *Financial Sector Policy* unit represented the National Treasury at various committees, including the Policy Board for Financial Services and Regulation - a statutory body that advises the Minister on the financial services industry and regulatory framework; the Financial and Regulatory Issues Standing Committee - a bilateral body with the SARB that coordinates common financial regulatory issues; the Standing Committee for the Revision of the Banks Act; and the Basle II Steering Committee tasked with implementing new risk management measures in the banking sector.

The unit also participated vigorously in the work of the Financial Sector Charter Council towards implementing the Charter's objectives of broadening access to financial services to low-income individuals. The latter objective has been achieved thus far by the introduction of legislation designed to introduce second- and third-tier banks that will provide basic banking services in the form of the Co-operative Banks and Dedicated Banks Bills.

Ongoing research is being carried out in various other areas, such as drafting a policy and legal position on a South African Deposit Insurance Scheme, reviewing the Pension Funds Act (24 of 1956) and the enactment both of the Securities Services Bill and Financial Services Ombud Schemes Bill. The former consolidates legislation of institutions in the securities industry, regulates financial markets to international standards and improves investor protection. The latter gives legal recognition to ombud schemes in the financial services industry, and ensures that the financial services consumer has an expeditious and cost-effective mechanism to address complaints.

Together with the Financial Intelligence Centre, the unit continues to work on policy issues relating to anti-money laundering and combating the financing of terrorism.

The unit continues to advise to the Minister on exchange-control policy, following the major exchange-control reforms in late 2004. This, among others, pertained to the abolition of exchange-control limits on outward foreign-direct investments, repatriation of foreign-earned dividends, and freedom for individuals to invest in foreign companies listed on the JSE Securities Exchange. Since the announcement of the amnesty window by the Minister in 2003, the unit has been responsible for the exchange-control and tax-amnesty process. It is anticipated that the Amnesty unit will complete the adjudication of all applications by the end of September 2005.

The *International Economics* unit has four core areas of responsibility, namely:

- Deepening and extending economic linkages among African economies;
- Strengthening South Africa's capital account;
- Reforming the international financial architecture; and
- Shaping the international development policy agenda.

Regional policy remains a key focus of the work of the unit. This includes work in the Southern African Development Community (SADC), the Southern African Customs Union (SACU) and the Common Monetary Area (CMA). Among the projects on regional integration, the past year saw an effort to operationalise a revised SACU agreement covering management and institutional issues, signed in 2002 following eight years of negotiations.

The SADC region has adopted a development framework called the "Regional Indicative Strategic Development Plan" (RISDP), which sets out strategic priorities and provides a framework for the integration of the economies, with the objective of fostering sustainable development. Work on the Finance and Investment Protocol is at an advanced stage. The Protocol aims at regional macroeconomic stability and convergence, encouraging savings and stimulating investment flows in the region.

At continental level, the National Treasury was involved in technical support for the creation of the African Peer Review Mechanism (APRM), which came into effect on 17 February 2004. The first country reports of the APRM, covering Ghana and Rwanda, were tabled at the NEPAD Heads of State Implementation Committee in Abuja in June 2005. That effort to improve policies and the investment climate in Africa has been further supplemented by National Treasury's advocacy of stronger technical cooperation among African policy makers in the area of finance, economic development and planning.

In January 2005, the National Treasury hosted a successful conference of African Finance Ministers to develop a common position on actions that the international community and Africa should undertake to advance Africa's development.

Through the Minister's participation in the UK-led Commission for Africa, the National Treasury has been engaging all sectors of the international community to take a fresh look at Africa's economic development and the role of the international community in this

regard. The Commission for Africa report, launched on 11 March 2005 in London and Addis Ababa, therefore, represents a comprehensive review of Africa's development and the underlying causes for underdevelopment. Furthermore, the Commission proposes a coherent and practical package of recommendations for the achievement of the Millennium Development Goals (MDGs) by 2015.

Over the last three years, there has been a continued and significant rise in Official Development Assistance (ODA). Total ODA rose by 7 per cent in real terms in 2003 and by a further 5 per cent in 2004. Over the past year, the National Treasury participated successfully in the replenishment negotiations of the International Development Association-14 (IDA) and African Development Fund-10 (ADF) Both funds received substantially more resources. When the ADF-10 replenishment process was concluded, at the fourth meeting in Copenhagen, Denmark, in December 2004, donors, including South Africa, had committed to increase their overall level of support to the Fund by 45 per cent.

The National Treasury participated in various G20 meetings during 2004/05. The G20 Finance Ministers meeting in Berlin in November 2004 has endorsed the Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets, which sets out guidelines to be adhered to in the event of a sovereign debt crisis for debtor countries and their creditors. The G20 Accord for Sustained Growth, which outlines how to foster economic growth, was also endorsed.

An important facet of the National Treasury's economic relations is its participation in international workshops and seminars. In December 2004, the National Treasury hosted a G24 workshop on Constraints to Growth in Africa, where policymakers and academics from the African continent presented papers on topics such as microfinance and mechanisms for stabilising commodity markets. The *International Economics* unit also presented a paper on South Africa's demographic challenges at a G20 seminar on Demography and Growth.

Global development policy remained a priority for International Economics during the period under review. The unit provided policy support to the Minister of Finance as chair of the Development Committee, a joint World Bank-IMF committee that provides guidance on development issues. Policy advice focused on sustainable debt relief, enhanced aid flows and growth-enhancing strategies that reduce poverty. A framework for monitoring the implementation of the Monterrey Consensus and the Millennium Development Goals was implemented.

The unit also played a significant role in strengthening inputs and participation at the International Development Association (IDA) meetings of the World Bank. At the International Monetary and Financial Committee (IMFC) meetings, the Minister of Finance represented the Africa Group Constituency and participated in discussions on the global economy, the role that the IMF should be playing in low-income countries, and how the IMF can improve its economic surveillance function.

A further responsibility of the unit is to organise the IMF's annual Article IV consultation, which involves an assessment by an IMF mission of the state of our economy. South Africa once again received a favourable report from the IMF after this consultation in 2004. Finally, the *International Economics* unit is an active participant in the Economic

Development and Co-operation Committee of the IRPS Cluster, which meets on a monthly basis to share information between Departments dealing with international economic relations.

### *Intergovernmental Relations*

The *Intergovernmental Relations* division coordinates fiscal relations between the national, provincial and local government spheres - a key role in South Africa's intergovernmental fiscal system. Over 62,3 per cent of non-interest allocations on the national Budget consist of transfers to provincial and local governments, thereby placing them at the forefront of social and basic service delivery. These allocations totalled R200,1 billion in 2004/05.

*Intergovernmental Relations* plays a key role in functional areas such as managing the intergovernmental fiscal frameworks, analysing and ensuring oversight of provincial and local government budgets and intergovernmental grants, and implementing financial management reforms at both the provincial and local spheres of government.

During the course of the 2004/05 financial year, the division facilitated comprehensive reviews of both the provincial and local government equitable share formulae, which culminated in new formulae being introduced in the 2005 Budget. The division also prepared the annual Division of Revenue Act, including detailed grant frameworks and three-year allocations for each provincial and local government grant, by province and municipality.

With the development of the frameworks for the allocation of grants to provinces and local government has assisted in providing sharper definitions of the purpose and intended outputs for each grant and, in clearly spelling out the roles and responsibilities of transferring and receiving officers, these frameworks thus ensure that accountability in relation to conditional grant funded programmes has been improved.

The implementation of the Municipal Finance Management Act (56 of 2003) the 2004/05 financial year marked the start of the formal process of extending several of the reforms implemented at national and provincial levels to municipalities. In addition to providing direct financial assistance to all municipalities, targeted support was provided to municipalities to improve their financial management capacity and to strengthen the link between policy, planning, budgeting and reporting. This targeted support was given with the provision of international advisors to provide technical assistance to certain municipalities, through the Municipal Finance Management Technical Assistance Programme (MFMTAP).

The implementation of the MFMA has not been without its challenges. The classification of the 284 municipalities into different categories of management capacity - 50 high, 107 medium and 127 low - indicates the level of readiness of the municipalities to implement the MFMA. Furthermore, the provision of capacity to provincial treasuries to enable them to assume a more direct role in financial management has been slow. Training workshops have been conducted by the National Treasury for provincial treasury officials, and the division has also successfully accredited a NQF level 6 qualification for municipal financial managers. As part of the competency-testing requirement by the

MFMA, a validation board has been set up in the National Treasury to review all training material and at least three training modules will be rolled out shortly. To enhance capacity in municipalities, more than 250 graduate interns have been appointed on two-year contracts at municipalities.

The phased implementation approach allows for the high-capacity municipalities to sequence reforms in a particular timeline, followed by the medium- and low-capacity municipalities. Peer learning and the sharing of implementation tools has led to beneficial results for the sequencing process by, for example, linking planning, budgeting and improved community consultation. Other notable improvements have been in the better quality and credible budgets tabled in many of the high-capacity municipalities. Work has also begun on improving in-year reporting and timely reporting by municipalities.

The division was responsible for monitoring all provincial and local government budgets, and continued to compile and update a database of all such information. It was also responsible for the publication of *Trends in Intergovernmental Finances* (a shortened version of the annual *Intergovernmental Fiscal Review*), which provided a consolidated review of how the nine provinces and 284 municipalities funded the delivery of social and basic services to our communities. The wealth of information it provides is aimed at promoting better accountability by providing valuable information to the public, elected officials, public servants and policy researchers in order to improve the quality and delivery of public services.

Service Delivery Achievement

Programme 2: Economic Planning and Budget Management

Measurable objective: Ensure sound economic, fiscal, financial and tax policies, an equitable division of revenue between the national, provincial and local spheres of government, and coherent and well-balanced departmental plans and budgets.			
Sub programme	Output	Output performance Measurement/delivery indicators	Actual performance against target
Budget Office	Annual budget framework and division of revenue	Integrity of budget framework	<p><b>Target:</b></p> MTEBF9 – October 2004; framework for 2005 Budget  Timely publication, accuracy, scope and quality of content
	Budget Review, Estimates of National Expenditure, appropriation legislation and public finance statistics	Quality of budget documentation	<p><b>Actual:</b></p> The MTEBF9 was tabled on 28 October 2004, and provided the budget policy framework for the 2005 Budget.  The budget was tabled on 23 February 2005, together with all required budget documentation. The coverage of public entities in the Estimates of National Expenditure was again increased markedly.  53 projects were registered with the PPP Unit at the end of 2004/05. PPP Manual and Standardised Provisions were published in 2004. Project development facility (PDF) was successfully introduced.
	Public-private partnership agreements	Value for money and risk transfer in partnerships	<p><b>Target:</b></p> Introduction of project development facility
	International cooperation agreements	Contribution to RDP objectives	<p><b>Actual:</b></p> Policy framework and procedural guidelines for management of ODA introduced. Development Cooperation Information System (DCIS) has been introduced. About 15 annual bilateral consultations were convened in 2004/05.

Measurable objective: Ensure sound economic, fiscal, financial and tax policies, an equitable division of revenue between the national, provincial and local spheres of government, and coherent and well-balanced departmental plans and budgets.			
Sub programme	Output	Output performance Measurement/delivery indicators	Actual performance against target
Public Finance	Structural and departmental policy advice	Timely and relevant analysis and advice	<p><b>Target:</b></p> Assessment of policy priorities for medium term and 2005
	Expenditure analysis	Quality of expenditure estimates	<p><b>Actual:</b></p> Policy analysis and advice continued to contribute to government service delivery improvements in various areas, including: land reform, housing finance, transport restructuring, social assistance grants delivery, education and training finance, Integrated Justice sector programmes, Home Affairs restructuring, government accommodation services.  Analysis of departmental budget submissions provided to Medium Term Expenditure Committee, expenditure review and analysis published in Intergovernmental Fiscal Review and Estimates of National Expenditure. In-year expenditure monitoring published in monthly reports.
	Project management support	Improved project and financial management	<p><b>Actual:</b></p> New EU Agreement now under implementation. Major Infrastructure Delivery Improvement Programme initiated. Significant increase in spending on projects and successful project implementation.
Intergovernmental Relations	Annual Division of Revenue Bill	Produce on Budget day, with allocations by province and municipality	<p><b>Target:</b></p> Growth in project flow and measured progress in service delivery of client departments and agencies
			<p><b>Actual:</b></p> Bill published on Budget day (23 February 2005) and enacted as Act 1 of 2005 (Government Gazette 27443 of 1 April 2005). The process underlying the Bill is deeply consultative, with province and organised local government. This Act gives effect to Section 214 of the Constitution, and promotes co-operative governance and transparency in intergovernmental budget processes.

Sub-programme	Output	Output performance indicators	Actual performance against target	
			Target	Actual
Sub-programme	Explanatory memorandum to the annual Division of Revenue Bill	Produced on Budget day, to accompany Division of Revenue Bill, explaining fiscal framework and all grants to provincial and local government	Published on Budget day	Explanatory memorandum published on Budget day (28 February 2006). The memorandum is an essential document on the formulae and criteria used for all grants to provinces and local government, with clear measurable outputs for conditional grants. It also contains three-year allocations for all grants, by province or municipality. Furthermore, it details the Government's response to the annual recommendations of the FFC
	In-governance Fiscal Review	Quality of data on provincial and municipal budgets, and an analysis of trends on such budgets, and for key sectors like education, health, social development, water and electricity	2004 Review published by June 2004	An abbreviated version, called <i>Review in Review</i> , published in November 2004, was published on 1 September 2004. The decision to table the 2004 Review in September was taken in view of the elections held in April 2004, and the anticipated changes to provincial budgets after the elections
	In-governance financial and fiscal trends	In-year budget implementation information through quarterly publication of provincial and local government budgets	Quarterly publication of provincial budgets	Monthly and quarterly monitoring of provincial finances carried out diligently, with quarterly reports gazetted. The reports numbers are 26630 (30 July 2004), 26846 (29 October 2004), 27228 (28 January 2005) and 27551 (28 April 2005). Analysis of quarterly reports were also made public for the second, third and fourth quarter, on Treasury website and as submissions to finance and budget committees in Parliament

Sub-programme	Output	Output performance indicators	Actual performance against target	
			Target	Actual
Sub-programme	Annual production of information via In-governance Fiscal Review (dealt with above)	Annual production of information via In-governance Fiscal Review (dealt with above)	Quarterly publication of 10 municipal budgets	Information on municipal capital and operating budgets published in <i>Trends in In-governance Finance</i> and other government publications. Review and feedback to all municipalities submitting budgets
	Support for provincial and municipal financial development	No. of provinces and municipalities in which financial management programmes/reforms have been implemented	9 provinces and 87 pilot municipalities	Customisation of provincial strategic and support plan formulae for 7 sectors and uniform budget and programme structures for 10 sectors
	Macroeconomic forecasts and framework	Accurate and timely quarterly forecasts	Enhanced quarterly economic forecasting model and development of the GCE model	Reforms are being implemented in 35 municipalities, assisted by international advisors. All municipalities have been provided with guiding circles, supporting documentation and areas of priority. An MIPMA website has been established, and has registered more than 23,000 hits
Macroeconomic Policy unit	Macroeconomic policy analysis	Timely and relevant analysis and advice		Achieved (see macroeconomic text above)

Subprogramme	Output	Output performance Measure/services delivery indicators	Actual performance against target	Actual
Tax Policy unit	Tax policy analysis and advice	Timely and relevant analysis and advice	<p><b>Target:</b> Promotion of a fair and equitable tax system</p>	<p>Revenue estimation for the MTBPS and the annual Budget and the publication of monthly revenue reports.</p> <p>The implementation of tax relief measures by adjustments to the personal income tax brackets, primary and secondary rebates, freeholds in the case of transfer duties and abolition of certain stamp duties; A review of the tax treatment of motor vehicles allowance with a view to limit the abuse of the deemed ikomama provisions;</p> <p>The implementation of employee equity schemes in support of broad-based empowerment initiatives and a review of equity-based incentive schemes for highly paid individuals to limit tax avoidance;</p> <p>Refinement of the VAT treatment of government grants to Public Entities; Adjustments of the specific excise duty rates on tobacco products and alcoholic beverages and adjustments in fuel taxes;</p> <p>Ratification of the Mineral and Petroleum Royalty Bill, incorporating comments received on the first draft; Completion of a draft policy paper on Environmental Fiscal Reform</p>

Subprogramme	Output	Output performance Measure/services delivery indicators	Actual performance against target	Actual
Financial Supervision Policy unit	Financial sector policy advice, legislation and regulations	Timely and relevant analysis and advice	<p><b>Target:</b> The promotion of a more equitable and efficient financial sector</p>	<p>Financial Services Ombud Schemes Bill promulgated beginning of 2005.</p> <p>Securities Services Bill promulgated beginning of 2005</p> <p>Co-operative Banks Bill and Dedicated Banks Bill published for comment, in November 2004 and scheduled for Parliamentary hearings in October 2005</p> <p>The Financial Advisory and Intermediary Services Act implemented in its totality on 30 September 2004</p> <p>Workshops on framework for integration of financial regulation held in November 2004</p> <p>Position paper on South African Deposit Insurance Scheme completed</p> <p>Ratification of the Insurance Companies Act published for comment in December 2004</p> <p>Study on Competition in South African Banking completed in May 2004.</p> <p>Exchange control reforms announced in MTBPS in October 2004</p>
International Economic unit	International financial relation advice and development	Timely and relevant analysis and advice	<p>South Africa's views successfully reflected in policies of international development</p>	<p>Technical support to the creation of the African Peer Review Mechanism (APRM)</p> <p>Hosted a successful conference of African Finance Ministers</p> <p>Conducted a study on the Impact of the African Growth and Opportunity on Agriculture in Africa and one on the BACU arrangement</p> <p>Organised the IMF's annual Africa IV consultation</p>

## PROGRAMME 3

### ASSET AND LIABILITY MANAGEMENT

**Purpose:** Asset and Liability Management is responsible for the prudent management of Government's financial assets and liabilities.

**Measurable objective:** This programme aims to manage the Government's asset and liability portfolio in a manner that ensures prudent cash management, asset restructuring and financial management, and optimal management of the Government's domestic and foreign debt portfolio.

Programme activities are carried out through five subprogrammes:

- *Management* is responsible for managing the Office of the Head of the Division;
- *Liability Management* provides for the Government's funding requirements and ensures prudent management of both the domestic and the foreign debt portfolios by issuing debt at the lowest possible cost, subject to tolerable levels of risk. It also contributes to the efficiency and development of domestic capital markets and ensures timeous servicing of debt;
- *Financial Operations* is responsible for the management of the Government's liquidity requirements, and ensures that all Government debt transactions are accounted for timeously and are reported in terms of the reporting requirements of the Public Finance Management Act (PFMA) (1 of 1999) including all other multilateral institutions. It also provides for the divisional information system requirements;
- *Strategy and Risk Management* develops and maintains a Government-wide risk management framework and ensures that the strategies adopted by the Asset and Liability Management division are in line with the agreed framework; and
- *Asset Management* is committed to enhancing shareholder value through restructuring of state-owned entities. It monitors and enforces compliance with corporate governance for government bodies and public entities in accordance with the PFMA and coordinates borrowing activities of public entities in line with Treasury Regulations. It also provides for the coordination of the issuance of guarantees.

#### Service Delivery Objectives and Indicators

##### Recent outputs

In 2004/05, the Asset and Liability Management (ALM) division operated in an environment of a strong domestic bond market on the back of a stronger rand, lower domestic inflation, lower interest rates and declining bond yields in major international markets. Prudent debt management in a volatile environment also contributed to the strong performance of the Government bond markets. Although the demand for fixed income assets remained strong, turnover on the Bond Exchange of South Africa declined by R2,3 trillion to R8,4 trillion in 2004 in line with global trends.

*Liability Management:* Despite the declining liquidity and growing volatility in the market, ALM was able to successfully finance the net borrowing requirement of R30,4 billion for 2004/05 through the issuance of domestic short-term loans (R6,1 billion), domestic long-term loans (R33,4 billion), foreign loans (R4,5 billion) and the run down of cash balances (-R13,6 billion).

Foreign-debt-management strategies over the past year were focussed on the refinancing of maturing debt and the financing of the arms procurement loan agreements. During May 2004, a US\$ 1,0 billion, 10-year global bond, maturing in 2014, was issued at a coupon of 6,5 per cent - the lowest to be achieved by the RSA in the US market. In addition, the transaction also attracted demand from investors who had not previously participated in the purchase of South Africa's bonds.

The RSA sovereign credit rating was upgraded by Moody's Investors Service and placed on a positive review by Fitch Ratings. This contributed to a further narrowing of the RSA sovereign risk premium on foreign debt.

In terms of the Gold and Foreign Exchange Contingency Reserve Account Defrayal Act, Government had to issue R28 billion nil coupon bonds to the South African Reserve Bank (SARB) over the period 2002/03 to 2005/06 to defray realised losses on the GFECRA. During 2004/05, R9,5 billion of nil coupon bonds were issued to the SARB leaving R4,5 billion to be settled in the next financial year.

With the successful launch of the Retail Bonds on 24 May 2004, R1,3 billion was raised in the financial year 2004/05. The current retail bond portfolio consists of two-year, three-year and five-year bonds. Investments in retail bonds comprised of 23 454 investment transactions that represented 16 172 investors. Most of the investments were on the two-year bonds (57,1%) and the five-year bonds (28,5%).

*Financial Operations:* Optimal use of available cash resources continued to be coordinated centrally between provinces and the National Treasury. During 2004/05, all provinces opened Corporation for Public Deposit accounts as part of their provincial revenue fund accounts. This improved coordination ensured that borrowing costs were reduced by about 2,5 per cent and significantly mitigated against credit risk.

Cash management processes were enhanced through the introduction of a new receipt cycle for government Departments, electronic retrieval of the daily expenditure flows and the roll-up of government bank account balances. As a result, Government's daily non-interest bearing liquidity buffer with the SARB was reduced from R100 million to R50 million. In addition, Government earned R1 595,3 million interest on its investment of surplus funds with the commercial banks and the SARB.

On the systems development front, a request for information on the integrated public-debt-management system was issued to the market. A state-owned entity register was developed and implemented. In addition, the research and benchmarking of integrated sovereign debt management offices was completed. Regarding debt information reporting, all debt transactions were recorded timeously, and done in compliance with the Special Data Dissemination Standards of the International Monetary Fund - further establishing the country as a credible borrower.

*Strategy and Risk Management:* The scope of Strategy and Risk Management has widened from an exclusive focus on market risk analysis of Government's debt portfolio to a government-wide risk-management approach. This approach recognises that financial weaknesses can only be detected by taking a broader view on risk management, including an analysis of all risks that impact on the Budget. These risks have been classified as market risk, credit risk and country risk and have been prioritised in terms of their impact on the objectives and goals of the National Treasury.

A risk profile of Government's debt portfolio has been prepared in which various categories of market risk have been analysed, including: i) a liquidity gap analyses; ii) an interest rate sensitivity analyses; iii) a currency risk analyses; and iv) a duration gap analyses. In addition, various market scenarios have been simulated to establish the sensitivity of Government's debt portfolio to market changes. A draft market risk policy document has been prepared and will be finalised following the market risk benchmarking exercise.

A credit risk management policy has been developed together with the operational guidelines for the management and investment of surplus cash. These guidelines are informed by a credit risk rating analyses of the major South African banks and reviewed on a regular basis. A risk profile of Government's explicit contingent liabilities (Government guarantees) has been prepared, which aims to establish the significance of credit risk in Government's risk portfolio and to monitor its changes over time.

A country-risk benchmarking and risk-rating exercise was undertaken and will be reviewed regularly to identify those risk factors most likely to impact on the country's credit rating. Changes in these risk factors will also be monitored over time. Among the country risk factors analysed are political risk factors (qualitative assessment) as well as economic and financial risk factors (quantitative assessment). The Funding Strategy, as approved by the Minister, is underpinned by market, credit and country risk considerations.

*Asset Management:* In 2004 the emphasis of asset management by the National Treasury has been on improving financial performance, enhancing shareholder value and improving service delivery and operational efficiencies of state-owned entities. Currently, a review of the mandates of the Development Finance Institutions (DFIs) is being undertaken to enhance service delivery efficiency and ensure coordination among DFIs. With regard to Treasury operations, a set of Best Practice Guidelines for Treasury Management of state-owned entities (SOEs) has been compiled and distributed to the relevant SOEs. The reviews of individual treasuries in line with best practice principles are still continuing. A draft Financial Distribution Policy and a Capital Structure Policy have been compiled and stakeholder Departments are currently being consulted.

As Registrar of Public Entities, 10 public entities were listed, eight delisted and name changes to three were effected. On 2 March 2005, this function was transferred to the Public Entities Governance unit in the Budget Office. In compliance with sections 52 and 55(1) of the PFMA, 100 per cent of the national Government business enterprises listed under Schedule 2 of the PFMA submitted annual reports and corporate plans. However, 93 per cent of Schedule 3B entities submitted their annual reports and 90 per cent their

corporate plans. The public entities that did not comply were reported to the Office of the Auditor-General and to the Parliamentary Standing Committee on Public Accounts (SCOPA).

During the period under review, the Guarantee Certification Committee (GCC) recommended the approval of R6.7 billion in guarantees, increased public entities' borrowing limits by R2 billion and indemnities.

In 2004/05, Programme 3 highlighted three Public Entities whose developments require special mentioning. These are the SAPO, Transnet and Safcol.

Firstly, the Minister of Communications and the Minister of Finance have signed the timetable of the corporatisation of the Post Bank. National Treasury has transferred a Post Bank equity injection of R750 million to the Department of Communications.

Secondly, Transnet has presented a four-point turnaround strategy to the National Treasury, according to which the corporation will concentrate on core operations like rail, port and pipeline business. Moreover, the corporation has unveiled a substantial capital investment programme of R49, 0 billion, which is to be implemented over the next five years. Both Ministers of Finance and Public Enterprise have approved the corporate plans submitted by Transnet.

Lastly, regarding the restructuring of Safcol, the Competition Commission is currently dealing with the issue, and there is a pending review as well of the allocation of shares.

Service Delivery Achievement

Programme 3: Asset and Liability Management

Measurable objective: Manage Government's asset and liability portfolio in a manner that ensures prudent cash management, asset restructuring, financial management and optimal management of the Government's domestic and foreign debt portfolio				
Subprogramme	Output	Output performance Measurement/delivery Indicators	Actual performance against target	
Liability Management	Financing the deficit	Meet government borrowing requirement	Net issue of debt of R45,2 billion	Actual Net issues of R30,4 billion. Lower issues due to lower borrowing requirement
	Maintain presence in foreign markets	Annual issuance in foreign markets	Issue equivalent of \$1,0 billion	Issued equivalent of \$1,0 billion
	Eliminate GFECRA issues	Annual reduction of GFECRA issues	Issue R7 billion of coupon bonds to SARB	R9,6 billion of coupon bonds issued to SARB, R2,4 billion more for monetary management purposes
	Diversification of borrowing instruments	Introduction of new funding instruments	Full yield curve of CPI bonds and operational retail bond market	Retail bonds of R1,3 billion issued and a full yield curve of CPI bonds established
	Intergovernmental cash coordination	Phase 1 – All provinces having accounts with Corporation for Public Deposits (CPD)	Phase 1 completed by December 2004	All provinces opened CPD accounts
Financial Operations	Reviewed Cash Management Strategy	Cash Management Framework	Cash Management Strategy processes reviewed and recommendations made	Several cash management initiatives implemented and further research being undertaken
	Account for and report on debt transactions	Measured by annual audit and achieve deadline	Ongoing and annually	Targets achieved
	Systems integration and information management	Analysis, design and deployment of an integrated public debt management system	BITA business case development, tendering and deployment	Request for information submitted and business requirements party completed
		Phase II development and deployment of the state-owned entities (SOEs) and the state's contingent liability register	Development and deployment of the web-based register	SOE register completed and contingent liability register party completed

Measurable objective: Manage Government's asset and liability portfolio in a manner that ensures prudent cash management, asset restructuring, financial management and optimal management of the Government's domestic and foreign debt portfolio					
Subprogramme	Output	Output performance Measurement/delivery Indicators	Actual performance against target		
Strategy and Risk Management	Review of Integrated sovereign debt management office	Review of Integrated sovereign debt management office	Best practices research	Actual Targets achieved	
			Benchmarking ALM division's operations with other OECD countries' sovereign debt management offices	Targets achieved	
	Development of a Government-wide Risk Management Framework	Approved Risk Management Framework	Obtain approval and implementation	Approval obtained and being implemented	
	Development of a Credit Risk Management Policy	Approved policy	Obtain approval and implementation	Credit Risk Policy approved and being implemented	
	Review of the Market Risk Management Policy	Revised document for Market Risk Policy	Obtain approval and implementation	Draft Market Risk policy approved	
	Development of a Risk Management Policy on Contingent Liabilities	Firm policy on Contingent Liabilities	Obtain approval and implementation	Guidelines on the management of contingent liabilities have been formulated	
		Produce a quarterly debt profile review to monitor risks that arise out of the debt portfolio	Quarterly debt profile review	Quarterly and an annual risk profile of government's debt portfolio has been produced	
		Acquire a Risk Management System	Real-time system in place	Tri-annual identification of systems requirements, solutions specifications and application is being undertaken	
	Asset Management	Review of Development Finance Institutions	Review operations and mandates	Recommend legislative amendments	An interdepartmental Steering Committee comprising of representatives from the Departments responsible for DFIs was established and a draft project plan developed
		Review of Treasury operations	Review operations of all SOEs' treasuries	Recommend SOE treasury guidelines	Best Practices Guidelines for Treasury Management at SOEs have been compiled and distributed to relevant SOEs
Formulate SOE dividend policy		All encompassing SOE dividend Policy	Formulation of dividend policy	A draft Financial Distribution Policy and a draft Capital Structure Policy for Government business enterprises have been compiled and stakeholder Departments consulted	

## PROGRAMME 4

### FINANCIAL MANAGEMENT AND SYSTEMS

**Purpose:** *Financial Management and Systems* manages and regulates Government's supply-chain processes, implements and maintains standardised financial systems, and coordinates the implementation of the Public Finance Management Act (PFMA), (1 of 1999) and related capacity-building initiatives.

**Measurable objective:** The programme aims to regulate and oversee public-sector supply-chain management and standardise the financial systems of national and provincial government, while coordinating implementation of the PFMA.

Managed by the Specialist Functions division, programme activities are carried out under the following subprogrammes:

- Supply Chain Management develops policy that regulates supply chain management processes in the public sector, monitors policy outcomes, facilitates and manages transversal term contracts on behalf of Government;
- PFMA Implementation and Coordination provides for National Treasury's role in coordinating implementation of the PFMA and related training initiatives; and
- Financial Systems provides for the maintenance and enhancement of existing financial management systems by introducing systems that are compliant with both the PFMA and generally recognised accounting practice.

#### Service Delivery Objectives and Indicators

##### Recent outputs

*Supply Chain Management:* Since 1995, Government has initiated reforms to its procurement policies, systems and processes, which focus on the promotion of good governance and the introduction of a preference system to address certain socio-economic objectives. These are embedded in section 76(4)(c) of PFMA, and section 112 of the Municipal Finance Management Act (56 of 2003) (MFMA) and in the Preferential Procurement Policy Framework Act (5 of 2000) (PPFA).

As part of the reforms, a Strategic Procurement Guideline and a Strategic Sourcing Methodology were developed during the 2003/2004 financial year to support the Framework for Supply Chain Management in directing Government's spend to achieve broader socio-economic objectives. This was achieved through a thorough analysis of the end-user and supplier bases, commodity/service dynamics and spend. As a result, these principles have been applied to assess transversal contracts, to identify strategic sourcing projects and to monitor the success of completed projects. During 2004/05 financial year, sourcing strategies were applied to 24 per cent of the transversal contracts. However, owing to some contracts renewal dates spilling over into the new financial year, it was possible to apply these new sourcing strategies to only 17 per cent of the transversal contracts in the period under review.

Subprogramme	Output	Output performance indicators	Actual performance against target	Actual
	Prudent management of contingent liabilities	Perform due diligence on contingent liabilities	Accurate and reliable data on contingent liabilities	The guarantee register was updated, and a comprehensive Contingent Liability Register, which is compliant with the IMF's Data Dissemination System is being developed
	Identify, classify and list of public entities	Quarterly publications and annual report to SCOPA	Publication in the Government Gazette and Treasury website of all listed entities	National Treasury listed 10, deleted 8 and amended nine entities to 3 Public Entities. The updated lists were published on National Treasury's website
	Compliance with PFMA/ Protocol on Corporate Governance	S62, S64, S65, S68 of PFMA - Submission of annual reports; Submission of Corporate Plan by Schedules 2 and 3B entities	To ensure that SOEs comply with PFMA and protocol on Corporate Governance	100% of Schedule 2 public entities submitted their annual reports and corporate plans, 83% of Schedule 3B submitted their annual reports, and 80% submitted their corporate plans
	Postal Offices	S70 - Issue of Guarantee by Cabinet Minister with concurrence of the Minister of Finance	Serve as guarantor to the Guarantee Certification Committee (GCC) every quarter	Six GCC meetings were held during the period under review. The GCC recommended approval of 3 guarantees and 2 indemnities
	Postal Offices	Disclosure of remuneration of directors and executive management	Ensure compliance with Protocol on Corporate Governance	80% of Schedule 2 and 3B public entities disclosed remuneration of directors and executive management
	Postal Offices	Corporatisation of the Postal Bank as subsidiary of Post Office	Regulatory Framework for Postbank	Timetable for the corporatisation of the Postbank has been signed by the Minister of Communications and Minister of Finance and R750 million equity injection into the Postbank has been transferred to DoC
	Transport	Broader Transport Restructuring Policy	Endorsement of the Transport and state model	The strategy has been approved by the Department of Public Enterprises and the National Treasury
	Forestry	Restructuring of Bafokeng	Allocation of shares to BEE, NEF, and ESOPs	Bafokeng is in the process of establishing a Trust to warehouse shares for identified personnel that qualify for allocation under the Employee Share Option Scheme

The *Supply Chain Management Framework* issued during December 2003 requires Departments, constitutional institutions and Schedule 3A and 3C public entities to, among others, establish supply-chain management units under the direction of their respective chief financial officers, ensure that clear lines of authority and accountability exist, improve sourcing procedures and processes and enhance asset and inventory management. In this regard, it can be reported that as at 31 March 2005, all national Departments were complying fully with the requirements of the Framework. Provincial departments have commenced with implementation of the Framework from 1 April 2005, while the National Treasury and the various provincial treasuries are assisting the various public entities with its implementation.

National Treasury facilitated *Supply Chain Management* training for all national Departments, provincial treasuries and provincial departments during the 2004/05 financial year, with a total of 1 050 officials participating.

The *Municipal Supply Chain Management Regulations*, issued in terms of section 168 of the MFMA, were published in Government Gazette 27636 dated 30 May 2005 and will take effect from 1 July 2005. These regulations will be implemented in phases. From 1 October 2005, implementation will begin with high-capacity municipalities, while medium- and low capacity municipalities will commence with implementation from 1 January 2006 and 1 July 2006 respectively. The National Treasury and the respective provincial treasuries will assist the various municipalities and municipal entities with implementation of these regulations.

The Broad Based Black Economic Empowerment Act, (53 of 2003) (BBBEE) and its Strategy Document highlighted certain deficiencies in the Preferential Procurement Policy Framework Act, including its regulations to effectively achieve Government's BEE objectives. As a result, it has become clear that the Preferential Procurement Regulations needed to be aligned with the BBBEE Act and the related strategy. A task team between National Treasury and the Department of Trade and Industry was established to incorporate comments received on the draft amended Preferential Procurement Policy Framework Act regulations. It is anticipated that the new system will become effective during the 2005/06 financial year and will contribute towards achieving specific policy priorities and charters to enhance the BBBEE.

*PFMA Implementation:* During July 2004, the PFMA Implementation unit submitted memoranda to Cabinet and the Standing Committee on Public Accounts detailing progress made with PFMA implementation in Departments, constitutional institutions and public entities. In general, Departments appear to be making good progress with PFMA compliance. However, two elements remain critical for successful implementation of the PFMA, and these relate to the existence of properly trained personnel within Departments and the commitment of accounting officers to effectively implement the letter and spirit of the PFMA. A further memorandum was submitted to Cabinet during November 2004 that provided details of audit outcomes and the timeous tabling of annual reports in respect of Departments, constitutional institutions and public entities.

The Treasury Regulations (issued in terms of section 76 of the PFMA) were amended and published in the Government Gazette 27388 dated 15 March 2005. These amendments

were mainly of a legal technical nature, related to financial reforms that have been implemented and incorporating approved regulations and addressing audit concerns raised by the Auditor-General. The Validation Board, established to accredit financial management training material, has to date accredited 76 courses from 16 service providers. Such accreditations ensure qualitative control over training material so that participating trainees acquire the requisite skills and to ensure that departments receive value for money from courses attended by their personnel.

National Treasury's Service Level Agreement with the Institute for Public Finance and Auditing (IPFA) has produced positive results, with a substantial number of trainees benefiting. In this regard, a total of 194 courses were rolled out to 4 408 trainees; this included 110 Standard Chart of Accounts courses that were presented to 2 566 trainees free of charge.

With effect from 1 July 2005, the IPFA's training initiatives will be coordinated by a newly established trading arm that will operate in accordance with business principles. This resulted in National Treasury's Service Level Agreement with IPFA being terminated. The National Treasury will, however, continue with vigorous training interventions related to supply-chain management, risk management, internal audit and accounting-related courses. These specific training interventions will be coordinated and rolled out in the most economic way, which will include free tuition to officials of national and provincial institutions.

As from 1 April 2005, SAMDI has employed a new Financial Management Training Strategy to align courses with the actual needs of clients. This entails, among others, conducting departmental training needs analyses in order to better service the direct training needs of their clients and to ensure better service delivery. This strategy includes a greater emphasis being placed on technical financial management training and financial management training for non-financial managers. SAMDI's database of training service providers will be updated using information that has been transferred from the National Treasury's Validation Board.

*Financial Systems:* During December 2004, the Budget Council endorsed a proposal to replace the current transversal financial systems, including those managed independently by the SANDF, SAPS, North West province, Limpopo province and Gauteng province. The proposal outlines the phased implementation and replacement of existing financial systems over a five-year period. Specific deliverables will, however, be provided within one year from commencement of the project's Phase III.

Although the current financial systems availability targets have been met, slow response times were experienced during month-end and year-end closure periods, which resulted in some frustration to the users. Migration from the Financial Management System (FMS) to the Basic Accounting System (BAS) resulted in unprecedented high transaction volumes, which were not catered for. Further, network downtimes owing to virus attacks, illegal traffic and unauthorised access also contributed to the performance problems of these systems. Certain steps have, however, been initiated to alleviate these problems and these steps were taken in conjunction with SITA as the supplier of Government's hosting services.

Service Delivery Achievement

Programme 4: Financial Management and Systems

Measurable objective: The programme aims to regulate and oversee public-sector supply-chain management and standardise the financial systems of national and provincial government, while coordinating the implementation of the PFMA.			
Subprogramme	Output	Output performance Measurement/delivery indicators	Actual performance against target
Supply-Chain Management	Regulate and monitor supply chain management policy in Government and manage general supply contracts on behalf of Government	Implement consistent legislative and policy framework	Phased implementation strategy to be continued during 2004
		Repeal the State Tender Board Act and dismantle the State Tender Board	During 2004
		Issue practice notes and guidelines for supply chain management	During 2004
	Monitoring of PFMA policy outcomes and maintenance of a supply chain database	Number of contracts awarded to HDIs	20% of contracts awarded to HDIs

Measurable objective: The programme aims to regulate and oversee public-sector supply-chain management and standardise the financial systems of national and provincial government, while coordinating the implementation of the PFMA.			
Subprogramme	Output	Output performance Measurement/delivery indicators	Actual performance against target
PFMA Implementation and Coordination	Introduce strategic sourcing principles to enhance value for money	Value of contracts awarded to HDIs	Reports submitted to Cabinet in September
	Alignment of Preferential Procurement system with broad based black economic empowerment	Applicable to at least 70 transversal term contracts	Introduce strategic sourcing strategies for 80% of all term contracts
	Coordination of the implementation and training initiatives of the National Treasury as well as monitoring implementation of the PFMA in other institutions	Revision of Preferential Procurement Regulations	Promulgation of new Preferential Procurement Regulations by July 2004
Financial Systems	Maintenance and enhancement of financial systems (PFMSAL, EAS, LOGIS & Vuindlate)	Report to Cabinet and SCOPA on progress made with PFMA implementation	30 September 2004 and 31 March 2005
	Implementation Master Systems Plan (MSP) for Integrated Financial Management Systems (IFMS)	Percentage of training material evaluated for relevance	100%
		Number of courses presented that meet government training needs	20 courses
		% availability of systems between 07h00 - 17h00 Monday to Friday	88% availability Monday to Friday from 07h00 to 16h30
		Adoption of MSP by Budget Council and Cabinet	Approval of MSP by Budget Council and Cabinet during April - June 2004

1) The department has not yet implemented an e-procurement approach, which is the introduction of an e-procurement system.

## PROGRAMME 5

### FINANCIAL ACCOUNTING AND REPORTING

**Purpose:** The *Financial Accounting and Reporting* programme seeks to achieve accountability, transparency and effectiveness in public service delivery, by setting new and improving existing government accounting policies and practices according to the Standards of Generally Recognised Accounting Practices (GRAP), and for the better management of revenue, expenditure, assets and liabilities.

**Measurable objective:** The programme aims to improve the quality of financial accounting and reporting through the development of appropriate accounting policies and financial practices to improve disclosure.

The Office of the Accountant-General (OAG) consists of the following subprogrammes:

- *Financial Reporting for National Accounts* is responsible for the accounting of the National Revenue Fund (NRF), the Reconstruction and Development Programme (RDP) Fund and banking services for national Government. It is responsible for preparing specimen financial statements for the public sector and guidelines thereto, and to prepare consolidated financial information for national Government;
- *Financial Management Improvement* includes improving financial management by developing, implementing and reporting on accounting, internal audit and risk management standards, policies and guidelines. It also assists the Institute of Public Finance and Auditing as well as participates in the formulation of standards of GRAP with the Accounting Standards Board;
- *Investment of Public Monies* accommodates augmentation of the Public Investment Commissioners' bank account;
- *Service Charges (Commercial Banks)* provides for bank service charges that the PMG Office incurs;
- *Audit* provides compensation for shortfalls of statutory bodies and municipalities in certain instances in terms of the Auditor-General Act (12 of 1995); and
- *Contingent Liabilities* makes provision for reinsurance granted to insurers arising from loss or damage to property, funds payments or consequential loss as a result of riots, in terms of the reinsurance of Damages and Losses Act (56 of 1989), and loans and advances to such insurers in terms of the Act.

#### Service Delivery Objectives and Indicators

##### Recent outputs

*Financial Reporting for National Accounts:* During the year ending in March 2005, and for the first time, a set of consolidated financial information for national Government (for the 2003/04 financial year) was produced, audited and tabled in Parliament. The tabling had been delayed by a number of teething problems experienced during the process of consolidation. These have been resolved and the OAG is confident that in future the consolidation process will proceed smoothly.

In preparation for the end of the 2004/05 financial year, a standardised financial reporting template has been prepared and published after a rigorous consultation process with stakeholders who included Departments, public entities and the OAG. These templates

will improve reporting by Departments and entities as well as facilitate the consolidation exercise for 2004/05 financial year for national and provincial governments.

In the 2004/05 financial year, greater emphasis was placed on training and support to reporting entities countrywide through roadshows, workshops and direct contact. The OAG directly assisted national and provincial departments in the completion of their financial statements and annual reports for the financial year ending 31 March 2005. This was made possible in part by 12 new appointments to this subprogramme during the financial year comprising eight permanent staff and four interns.

*Financial Management Improvement:* During the year ending March 2005, the generic accrual accounting policies for all entities were finalised. These policies will undergo continuous enhancement as the transformation from cash to accrual accounting continues. The Asset Management Framework policy, a framework for recognition of assets, was finalised during July 2004 and the implementation drive commenced during October and November 2004. An Asset Management Learner Guide has been developed to facilitate the implementation of the Asset Management Framework.

Additionally, improved cash policies as well as guidelines for compliance with these policies were developed for inclusion in the guideline for the preparation of the Annual Financial Statements for National and Provincial Departments. The Asset Management policy reforms, as well as the other accounting reforms, will be the basis for the OAG roll-out of the cash-to-accrual accounting transformation during the coming year by the OAG.

The unit currently is reviewing comments from stakeholders on the consultation paper and the Implementation Strategy regarding the migration from cash to accrual accounting.

Capacity within the *Internal Audit and Risk Management* unit was increased from July 2004 with the appointment of four staff members at senior management level. The internal audit and risk management frameworks - aimed at providing guidance on risk management and internal audit across national and provincial departments - were finalised and approved. The roll-out of the frameworks will be undertaken within the next reporting period.

With increased capacity, the unit has been able to conduct internal audit reviews across national and provincial departments to ensure compliance with the PFMA, Treasury regulations and the Internal Audit Professional Standards issued by the Institute of Internal Auditors. The unit also successfully hosted the first Public Sector Internal Audit Indaba to facilitate knowledge-sharing among internal auditors in Government and to clarify the role of internal auditing in public service delivery and accountability.

Initiatives to enhance risk management in Government were also undertaken during the year to March 2005. These included the enhancement of the Risk Management Framework, a survey on the status of risk management within the national Departments and the development of risk management training materials. The survey results and the training materials developed in conjunction with the Institute for Public Finance and Auditing (IPFA) will be used as the platform for developing appropriate strategies to assist Departments with capacity-building initiatives in the coming financial year.

Service Delivery Achievement

Programme 5: Financial Accounting and Reporting

Measurable objective: Improve the quality of financial accounting and reporting by ensuring that appropriate policies and procedures are developed and implemented.		Actual performance against target	
Subprogramme	Output	Output performance Measures/services delivery indicators	Actual
Financial Reporting for National Accounts	Monthly statement of actual revenue and expenditure with regards to the National Revenue Fund	Timely publishing of accurate reports	Within 20 days after month end
	Bi-monthly forms for annual financial statements and consolidated annual financial statements	Complete 2004/05 forms for annual financial statements and consolidated annual financial statements in compliance with PFMA, MFMA, GRAP, Treasury Regulations, etc	30 August 2004
	Consolidated annual financial statements for national Government for 2003/04	Accurate and timely Audited Consolidated Annual Financial Statements for national Government	30 September 2004
	Finalising the 1999 – 2003 Consolidated Financial statements	Accurate and timely Audited Consolidated Annual Financial Statements for national Government	30 September 2004
	Banking activities to the national government – (Bank statements and confirm validity of payments)	Accurate Bank statements issued timely	2 <sup>nd</sup> day of the month
Financial Management Improvement	Framework for the transition from cash to accrual basis of accounting	Bank statements reconciled to cash book timely	Daily
	Detail implementation plan for transition from cash to accrual basis of accounting	Completed framework for transition comply to the ABS workshop and adhere to local and international best practices	31 October 2004
		Implementation plan is in line with the framework and adhere to local and international best practices	31 March 2005

Measurable objective: Improve the quality of financial accounting and reporting by ensuring that appropriate policies and procedures are developed and implemented.		Actual performance against target	
Subprogramme	Output	Output performance Measures/services delivery indicators	Actual
	Skills assessment report based on a representative sample of national Departments	Report identifying skills gap for key financial accounting personnel in national Departments	30 September 2004
	Accounting policies and practices in support of the framework for the transition from cash to accrual basis of accounting	Completed set of accounting policies and practices are in line with the GRAP standards and adhere to local as well as international best practices	31 October 2004 to DG for approval 100% alignment to GRAP standards effective date
	Prescribe the Internal Audit and Risk Management Frameworks for National and Provincial departments	Accounting policies and practices implemented	100% alignment to framework for transition from cash to accrual basis of accounting
	Facilitation of knowledge sharing among the Internal Auditors	Approved frameworks are in line with international standards, King II report and the principle of comparability, understandability, relevance and reliability	31 December 2004
	Internal Quality Assessment Reviews (IQAR) in preparation for the QAR on national and provincial Departments	Hosting a public sector internal audit Indaba IQAR reports highlighting the level of compliance to the frameworks	31 March 2005 IQAR done on 100% of both national and 50% of provincial departments done by 31 March 2005

## PROGRAMME 6

### PROVINCIAL AND LOCAL GOVERNMENT TRANSFERS

**Purpose:** The Provincial and Local Government Transfers programme is responsible for managing the conditional grants, which are additional allocations to the equitable share allocations, to the provincial and local spheres of government, and do not cover the many other conditional grants administered by other national Departments.

**Measurable objective:**

- a) To enhance the pace and quality of provincial infrastructure investment and maintenance of assets; and
- b) To promote financial management reforms in municipalities, restructure and modernise service delivery in large-budget municipalities.

This programme includes three conditional grants:

- The Provincial Infrastructure Grant supplements the provinces' infrastructure budgets, and assists in accelerating the building and maintenance of social and economic infrastructure such as hospitals, clinics, schools and provincial roads;
- The Local Government Financial Management Grant provides for the transfer and monitoring of funds for local government financial management reforms and the implementation of the Municipal Finance Management Act (56 of 2003) (MFMA); and
- The Local Government Restructuring Grant provides for the transfer and monitoring of funds to local government to assist in restructuring initiatives for modernising service delivery and institutional and financial management in the larger municipalities.

#### Service Delivery Objectives and Indicators

##### Recent outputs

The *Provincial Infrastructure Grant* was introduced five years ago with an allocation of R300 million. The grant serves as a catalyst for accelerated public infrastructure investment at the provincial level. The grant was allocated R3,3 billion in 2004/05. The component of the grant, that funded the rehabilitation of infrastructure damaged by floods, has been phased out. Although in some cases, instalments of the grant (or portions thereof) to some provinces had to be delayed owing to non-compliance with the requirements of the grant, the full allocation was transferred with each province receiving its share as set out in the Division of Revenue Act (1 of 2005).

The rapid rise in the allocation of the Provincial Infrastructure Grant has contributed to the high growth in capital budgets among provinces. Total provincial capital expenditure amounted to R10,2 billion in 2004/05. Over the three years ending 2004/05, capital expenditure grew at an average annual rate of 15,0 per cent a year.

Notwithstanding the increases in provincial infrastructure investment, provinces still face challenges in implementing infrastructure projects. In the 2004/05 financial year they

underspent their capital budgets by about R1,8 billion (against their total capital budgets of R12 billion). The Infrastructure Delivery Improvement Programme (which is explained below) is intended to assist provinces resolve some of the service delivery challenges they are facing.

In 2001 the National Treasury, in partnership with the Construction Industry Development Board (CIDB) formulated an Infrastructure Delivery Improvement Programme (IDIP) in order to address challenges facing provinces in the delivery of infrastructure, which they are implementing together with the Department of Public Works and the Development Bank of Southern Africa. The IDIP consists of three key components in the form of an Infrastructure Delivery Management System (DMS), a toolkit for infrastructure delivery management; a capacity-building programme targeting infrastructure delivering line departments; and the development of a monitoring and reporting system for infrastructure projects.

The implementation of the pilot phase IDIP started in July 2004 with the recruitment and placement of Technical Assistants (TAs) in participating provincial departments. There are four key performance areas that the IDIP is expected to influence, and these involve the development of appropriate capacity for infrastructure planning and delivery management (people, skills and systems); infrastructure plans on the needs, supplies, backlogs and prioritisation of projects; contracts, or service-level agreements, that provide clear measures of performance of Implementing Agents including Public Works and contractors; and the improvement in the quality of information reported on infrastructure projects.

Since implementation in July 2004, 13 Technical Assistants (TAs) have been appointed from the private sector and inducted in the toolkit. These TAs have also been assigned to the following departments; Departments of Education (all provinces), Departments of Health (Limpopo and Free State) and Departments of Transport (Eastern Cape and KwaZulu-Natal). The contract period of TAs on the pilot phase is 190 days, which equates to approximately nine months. Ten of the 13 TAs completed their contract period during May 2005 while the remaining three completing theirs in July 2005. By March 2005, all TAs had submitted and presented their inception reports and are currently assisting in developing infrastructure plans for the next financial year, including other aspects of the programme tailored to address capacity and systems gaps that they identified in the departments in which they are deployed.

The *Local Government Financial Management Grant* provides for the transfer and monitoring of funds for local government financial management reforms and the implementation of the MFMA, which was introduced in 2003. In 2000 a pilot project was started to develop means of implementing the principles contained in the Act in selected municipalities. National roll-out began in 2003 and by the end of 2004 all municipalities were participating in the programme. The programme provides for the gearing of international support and direct allocations to municipalities. The 2004 MTEF provides for R198,0 million, R198,7 million and R198,7 million.

Twenty-four of the 30 largest municipalities have attempted multi-year budgeting and made significant progress in other areas of financial reforms, including the testing of new

reporting formats. Some municipalities that were among the first to implement the financial management have commenced with the new budget process - they have hosted community meetings for the 2004 budget; produced quality annual reports that speak to financial and non-financial information and performance.

The 2004 MTEF allocations for the grant include the funding of the Municipal Finance Management Technical Assistance Programme. The agreement with the International Bank for Reconstruction and Development to provide technical assistance in implementing municipal financial management reforms has entered phase three with 30 advisors now placed in municipalities for a period of two years, from 16 during 2003. This number will expand over the medium term. Furthermore, to facilitate skills development in financial management, municipalities have used the grant to appoint more than 250 finance management interns, from previously disadvantaged backgrounds. The National Treasury will accelerate its capacity-building programme through this grant, developing further training material, guidelines and manuals, and issuing guiding regulations to facilitate the implementation of the Act.

Metropolitan and other large municipalities have a significant impact on the regional and national economy, and need to modernise the way they deliver services, collect revenue and promote growth. The *Local Government Restructuring Grant* is a demand-driven grant with municipalities applying for such grant based on their own restructuring plans. Though slow to get off the ground, the grant has been awarded to six municipalities - these are Johannesburg (R525 million), Mangaung (R130 million), Msunduzi (R130 million), Cacadu district (R48 million), Buffalo City (R130 million) and Emfuleni (R130 million). These are multi-year allocations, paid in terms of a grant agreement. Over the MTEF period, R1 billion has been allocated to the restructuring grant, R350 million in 2005/06, R350 million in 2006/07 and R350 million in 2007/08. The grant is expected to be phased out in 2007/08 as four new applications were approved in 2004/05 and the remaining funding was allocated.

Implementation reviews were undertaken in Cacadu District Municipality, Msunduzi Municipality and Mangaung Municipality during 2004/05. Msunduzi Municipality has successfully turned around its previously ailing financial position by improving billing systems and revenue collection, whereas Cacadu District Municipality has managed to downsize its operations since the loss of the RSC levies to the Metro and is currently providing capacity support to the smaller local municipalities in the district. Mangaung Municipality will continue to report on some of its outstanding benchmarks relating to revenue collection and personnel cost containment during 2005/06.

Multi-year funding was approved for Cape Town (R320 million), eThekweni (R330 million), Tshwane (R320 million) and Nelson Mandela (R222,9 million) during 2004/05 and agreements will be finalised during the second quarter of 2005/06. Ongoing monitoring for Buffalo City, Emfuleni and the City of Joburg will be undertaken during 2005/06.

### Service Delivery Achievement

#### Programme 6: Provincial and Local Government Transfers

Measurable objective: The Provincial and Local Government Transfers programme is responsible for managing the conditional grants, which are additional allocations to the equitable share allocations, to the provincial and local spheres of government, and do not cover the many other conditional grants administered by other national Departments.	Sub-programme	Output	Output performance Measurement/case delivery Indicators	Actual performance as against target	
				Target	Actual
Provincial Infrastructure Grant	Local Government Financial Management Grant	Framework for the grant	Grant framework with clearly defined purpose, outputs and conditions of the grant, as well as a schedule for payments, in Division of Revenue Bill	Publication on Budget day	Division of Revenue Bill and Explanatory memorandum to the annual Division of Revenue Bill published on Budget day (23 February 2006)
		Assistance in implementation of budget and financial management reforms in pilot municipalities	Improvement of infrastructure delivery management systems, through implementation of Infrastructure Delivery Improvement Programme (IDIP) in provinces	Implementation of phase 1 (pilot) of IDIP in 9 provincial education departments, 2 health departments and 2 roads departments	The pilot phases of IDIP was launched in August 2004 with the appointment of consultant and experienced Technical Assistants (TA) in all provincial departments of education, two health departments and two roads departments. The phases commenced with an inception report from each TA detailing the status quo in the department, the gaps that need to be addressed as well as the proposed work plan to be followed by the TA.
			Grant framework with clearly defined purpose, outputs and conditions of the grant, as well as a schedule for payments, in Division of Revenue Bill	Publication by Budget day	Division of Revenue Bill published on Budget day (23 February 2006) and attached as Act 1 of 2006 (Government Gazette 27443 of 1 April 2006)

## PROGRAMME 7

### CIVIL AND MILITARY PENSIONS, CONTRIBUTIONS TO FUNDS AND OTHER BENEFITS

**Purpose:** The *Civil and Military Pensions, Contributions to Funds and Other Benefits* programme provides for pension and post-retirement medical-benefit obligations to former employees of state departments and bodies, and for disability benefits for former members of the statutory and non-statutory forces.

**Measurable objective:** The programme aims to ensure the payment of benefits and awards to beneficiaries of departments, state-aided bodies and other specified bodies in terms of various statutes, collective-bargaining agreements and other commitments.

There are two subprogrammes:

- *Civil Pensions and Contributions to Funds* provides for the payment of benefits out of pension and other funds to the beneficiaries of various public-sector bodies in terms of various statutes, collective-bargaining agreements and other commitments. The subprogramme also provides for the payment of special pensions to persons who have made sacrifices or served the public interest in the establishment of a democratic constitutional order.
- *Military Pensions and Other Benefits*, provides for the payment of military pension benefits and medical claims arising from treatment for disability, medical assistive devices, and other related expenses, in keeping with statutory requirements and commitments. The main objective of the unit is to pay the correct pension (gratuities and/or annuities) and medical expense benefits to the correct beneficiaries timeously. The benefits are paid to persons disabled in the course of military service or where the disablement had been aggravated as a result of military service.

#### Service Delivery Objectives and Indicators

##### Recent outputs

*Civil Pensions and Contributions to Funds*, while ensuring the continued timeous payment of government contributions to medical-aid schemes in respect of civil pensioners, surviving spouses, dependants and civil pensioners, who were not members of medical schemes during their period of service (by special concession), has embarked on several initiatives. It also ensures payment to medical schemes in respect of pensioners and widows of the former Development Boards and the National Film Board. The subprogramme has as its aim to implement a new medical-scheme fee structure to ensure compliance with industry standards and the Medical Schemes Act.

One of the critical projects at *Medical Benefit Administration* is the change in medical benefits payable to Medihelp members who retired before June 1992. Legal proceedings between Medihelp and the Registrar of Medical Schemes are ongoing. The audit done on these cases during May 2005 indicated that 1 600 members must be reconciled and their records finalised. This is also still in progress.

Subprogramme	Output	Output performance indicators	Actual performance against target	
			Target	Actual
Local Government Restructuring Grant	Assistance to restructure and modernise service delivery	Number of pilot municipalities in which financial management programmes/ reforms are being implemented	Advisors deployed to 30 pilot municipalities	Reforms are being implemented in 35 municipalities, assisted by international advisors
			Managing and overseeing compliance with conditions of grant by successful municipalities	Quarterly reports have been evaluated and annual review visits undertaken in all the restructuring grant municipalities. Grants for Mergaun and Johannesburg have been delayed due to slow compliance
			Reviewing new applications	Four applications have been evaluated, reviewed and approved. Negotiations on beneficiaries are currently in progress

A special callcentre has been established to handle enquiries for the abovementioned pensioners regarding the new method of payment.

The subprogramme has initiated a pre-auditing of medical documents process, which has yielded positive results to eliminate errors. The matter of arrear claims is being addressed by the timeous completion of medical documents. New processes will be followed to address the numerous correspondences.

The payment of special pensions to persons who have made sacrifices or served the public interest in the establishment of a democratic constitutional order also forms part of the subprogramme. This includes members of any armed or military force not established by or under any law, and which is under the authority and control of, or associated with, and promotes the objectives of political organisations or dependants of such persons in terms of the Special Pensions Act (69 of 1996). The Act gives effect to Section 189 of the Interim Constitution regarding the prescription of rules for determining persons who are entitled to receive special pensions and to provide for the establishment of structures to implement the Act - that is, the Special Pensions Board and the Special Pensions Review Board.

Special Pensions amendments of 2003 (Special Pension Act 21 of 2003 and Act 30 of 2003) authorised the Special Pensions Board to condone late applications and this resulted in more people who previously applied after the closing date becoming eligible for Special Pensions benefit consideration.

*Military Pensions and Other Benefits* has, during the period under review, implemented the following initiatives:

- Transfer of medical treatment from Provincial Administrations to the Department of Defence. The transfer of medical treatment to the Department of Defence is in progress. The transfer has been completed for the Western Cape and Gauteng provinces, which were the critical areas of concern. The SANDF structure, however, limits the possible services rendered to the pensioners, which resulted in delays in the transfer process.
- Compile a policy on medical treatment and expenses. The unit initiated the process by drafting an initial in-house policy. The process is now continuing with the appointment of a Health Risk Manager (SOMA) to assist in completing and formalising the policy.

### Service Delivery Achievement

#### Programme 7: Civil and Military Pensions, Contributions to Funds and Other Benefits

Measurable objective: Ensure the payment of benefits and awards to beneficiaries of Departments, state-aided bodies and other specified bodies in terms of various statutes, collective-bargaining agreements and other commitments.											
Subprogramme	Output	Output performance measurement indicators	Actual performance against target								
Civil Pensions and Contributions to Funds	Payment of pension benefits and contributions to funds (including Special Pensions)	Beneficiaries to be paid monthly	<table border="1"> <tr> <th>Target</th> <th>Actual</th> </tr> <tr> <td>Payment to be made on the first working day of each month</td> <td>Payment was made on the first working day of each month</td> </tr> <tr> <td>Payment to be made by the end of the month following the month in which the expenses were incurred</td> <td>Payment was made by the end of the month following the month in which the expenses were incurred</td> </tr> <tr> <td>Payment to be made by the 7th working day of each month</td> <td>Payment was made by the 7th working day of each month</td> </tr> </table>	Target	Actual	Payment to be made on the first working day of each month	Payment was made on the first working day of each month	Payment to be made by the end of the month following the month in which the expenses were incurred	Payment was made by the end of the month following the month in which the expenses were incurred	Payment to be made by the 7th working day of each month	Payment was made by the 7th working day of each month
	Target	Actual									
	Payment to be made on the first working day of each month	Payment was made on the first working day of each month									
	Payment to be made by the end of the month following the month in which the expenses were incurred	Payment was made by the end of the month following the month in which the expenses were incurred									
Payment to be made by the 7th working day of each month	Payment was made by the 7th working day of each month										
Payment of contributions to medical aid schemes	Members to be paid monthly										
Payment of risk and administration fees to the Political Office Benefit Pension Fund	Payment of risk and administration fees to members on a monthly basis										
Medical Benefit Administration	Change of medical benefits for pre-92 Medical members	Finalisation and reconciliation of 1800 member records	Legal proceedings between Medihelp and the Registrar of Medical Societies are ongoing								
Military Pensions and Other Benefits	Addressing pre-1992 queries	Adequate dissemination of information	A new call-centre has been established to handle pre-1992 enquiries								
	Payment of military pension benefits	Beneficiaries to be paid monthly	Payment was made on the 1st working day of each month								
	Payment to service providers for medical expenses	Claims paid to service providers on a monthly basis	Claims were paid on receipt from service providers								

Subprogramme	Output	Output performance Measurement/delivery Indicators	Actual performance against target	
			Target	Actual
	Transfer of medical treatment from Provincial Administrations to the Department of Defence	Create structures that will facilitate the transfer of medical treatment to the Department of Defence	To implement the transfer of medical treatment in Gauteng and the Western Cape	This transfer of medical treatment in the Western Cape and Gauteng were implemented
	Compile a policy on medical treatment and expenses	The appointment of a Health Risk Manager and the adoption of medical treatment policy	Proper regulation of claims, payments and supplier administration	This in-house medical treatment policy has been drafted and a process is under way to appoint a Health Risk Manager
	Incorporate Injury on Duty causes for ex-TEVC Staff	Attend to all exemption cases	Finalisation of all ICD cases for ex-TEVC Staff	This project has been successfully addressed with a few exceptions
	Establish a relationship with the Compensation Commissioner	Efficient and streamlined communication for the processing of payments	Enhance the efficiency of the relationship with the Compensation Commissioner	Interaction with the Compensation Commissioner and employer departments occurs on a daily basis. An electronic interface with the Compensation Commissioner is being considered
	Reactivate all outstanding life certificates.	Activation of all life certificates	Efficient administration of life certificates	The project has been completed successfully
	Capture military personnel information from Index files	The commencement of data capturing	Completion of the capturing of military personnel information	The project is currently in process
	Review the Service Level Agreement with the SANDF	Renewal of Service Level Agreement	Deliver a comprehensive service regarding the highly populated areas within province	The Gauteng and Western Cape provinces have been awarded to. SLA renewal negotiations have commenced

## PROGRAMME 8

## FISCAL TRANSFERS

**Purpose:** *Fiscal Transfers* makes funds available to public authorities and other institutions in terms of various legal provisions governing the financial relations between Government and the particular authority or institution, including international development institutions of which Government is a member.

**Measurable objective:** To meet certain international and other statutory financial obligations and the costs of effectively and efficiently raising revenue for the purpose of the state, and to finance intelligence gathering and other secret services in the national interest.

*Domestic transfers* are made to:

- The Development Fund of the Development Bank of Southern Africa for the micro-credit initiative;
- The South African Revenue Service, which is responsible for collection of revenue in terms of the South African Revenue Service Act (34 of 1997);
- The Financial and Fiscal Commission, a constitutional body charged with making recommendations about the equitable division of revenue;
- The Secret Services Account, used to finance the activities of the National Intelligence Agency, the South African Secret Service, and certain activities of the Detective Service of the South African Police Service; and
- The Financial Intelligence Centre charged with assisting in combating money laundering and strengthening financial regulation capacity.

*Foreign transfer payments*, made in terms of Government's international obligations, are made to:

- The International Development Association (IDA);
- The African Development Bank (ADB);
- The G24; and
- The Highly Indebted Poor Countries Initiative (HIPC).

## Service Delivery Objectives and Indicators

## Recent outputs

South Africa participates in replenishing the International Development Association (IDA), and the money contributed is primarily earmarked for use in the development of the African continent. This is the key reason that motivates in favour of South Africa's participation in meeting the organisation's funding requirements. South Africa's third instalment to IDA13 was made on 15 January 2005 and amounted to R27,7 million.

South Africa has contributed R24,7 million to the replenishment of the *African Development Fund* of the *African Development Bank*. The amount was paid in three equal instalments of R8,2 million, with the final payment made in January 2005.



An amount of R105 663.50 was remitted towards the G24 Secretariat and its research programme. During November 2004, South Africa hosted in conjunction with the G24 Secretariat, a workshop looking broadly at the key constraints on development and growth in sub-Saharan Africa.

In 2000, the South African Government committed to contributing SDR20 million, an equivalent of R250 million<sup>1</sup>, to the *Highly Indebted Poor Country (HIPC)* initiative of the International Monetary Fund and World Bank. According to the agreement, South Africa's contribution was to make five equal annual instalments commencing in May 2000. The final instalment of R39,5 million was paid in May 2004.

### Transfer payments

#### Transfer Payments

Name of institution	R*000
Common Monetary Area Compensation (CMA)	250,987
Development Bank of Southern Africa	-
World Bank Group	-
Highly Indebted Poor Countries	39,504
African Development Bank	72,581
SA Revenue Services	4,602,509
Financial and Fiscal Commission	17,869
Secret Services	2,117,057
Financial Intelligence Centre	21,866
Commonwealth Fund	2,290
<b>Total:</b>	<b>7,124,663</b>

<sup>1</sup> The real amount of each instalment is determined by the rand-SDR exchange rate on the date of payment.

