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**ANALYSIS OF THE NATIONAL TREASURY ANNUAL
REPORT - 2005/06****1. Introduction**

The aim of the 2005/06 Annual Report is to provide an account of how the National Treasury has discharged its mandate, as well as to provide details of the achievements and challenges of the main divisions and programmes of the Treasury.

In its 2005/2008 Strategic Plan, the Treasury committed itself to a set of strategic focus areas aimed at promoting sustainable growth and development, reducing poverty, enhancing budgetary transparency and improving intergovernmental fiscal relations and financial management.

The purpose of the paper is to analyse the annual report of the National Treasury, and to ascertain whether its programmes and activities in the financial year under review were conducive to achieving its aim of "*promoting economic development, good governance, social progress and rising living standards through the accountable, economical, efficient, equitable and sustainable management of public finances*".¹

2. Treasury Legislation Enacted In Parliament

The following legislations were tabled in Parliament during the 2006/06 financial year:

- Appropriation Act, No. 4 of 2005.
- Taxation Laws Amendment Act, No. 9; and Second Amendment Act No. 10 of 2005.
- Adjustments Appropriation Bill Act, No. 21 of 2005.
- Auditing Profession Act, No. 26 of 2005.
- Special Pensions Amendment Act, No. 27 of 2005.
- Revenue Laws Amendment Act, No.31; and Second Revenue Laws Amendment Act, No. 32 of 2005.
- Additional Appropriations Amendment Act, No.1 of 2006.
- Division of Revenue Act, No. 2 of 2006.10.06

¹ Estimates of National Expenditure, 2005.

3. Programme Performance

3.1 Administration Programme

The Administrative Programme aims to provide strategic management and administrative support to the National Treasury. This Programme has four sub-programmes, which are *Minister, Deputy Minister, Management and Corporate Services*. However, the National Treasury has recently added *Property Management* as the fifth subprogramme in the 2006/07 financial year.

The Corporate Services Division, which is responsible for the Administration Programme, developed the Client Charter in its efforts to improve its service to the Treasury as a whole. Performance in relation to the Charter is measured through client surveys, the results of which have been used to inform service improvement initiatives.

In addition, the Corporate Services Division launched a pilot project to enhance the management of records and documents, which will play an imperative role in recruiting additional project management capacity to assist with project planning, managing and reporting.

Issues to Consider

- The Corporate Services Division is mainly concerned with improving internal efficiency of the Treasury and their programmes are limited to that goal. It becomes crucial therefore that other programmes such as pilot project aimed at enhancing management of records be optimised for efficiency to impact significantly in improving communication between Treasury and other state organs including Parliament.
- The Corporate Services Division reached only 25% of its 50% target in terms of identifying areas of improvement within the division. Furthermore, it has been unable to develop and implement some of its strategic plans. As a result, it is recommended that Treasury provide explanations to the Committee regarding the impediments and plans it has to address existing challenges.
- In terms of the phased implementation of service standards, the report indicates that Corporate Services attained client satisfaction rate of 67%, however the scale of envisaged target remains unclear.
- Moreover, the approval of security policies and procedures, as well as Occupational Health and Safety and emergency regulations has not been achieved as anticipated.

3.2 Economic Planning and Budget Management Programme

The *Economic Planning and Budget Management Programme* provides 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. The programme is divided into four subprogrammes, namely: *Public Finance, Budget Office, Intergovernmental Relations* and *Economic Policy and International Financial Relations*.

Recent Outputs

- The Fiscal Policy Unit specialised on providing and enabling policy advice on public service remuneration issues in the 2005/06 financial year. This included support to the new Government Employees Medical Scheme and pay progression. The unit further considered the capital spending plans of government departments, provinces and public entities; and improved budgeting and planning processes for infrastructure investment and maintenance with a renewed focus on mega projects. In addition, fiscal sustainability, debt finance and budget deficit trends were analysed in detail with a view to position the budget in support of economic growth and development.
- The Expenditure Planning Unit continuously strives to improve allocation decisions through increased political oversight; better evaluation of spending proposals and improved spending information. It's key activities over the 2005/06 financial year included:
 - Working closely with the Standing Committee on Public Accounts to finalise outstanding cases of unauthorised expenditure.
 - Working with Committees on budget process and budget documents.
 - Providing training on planning and budgeting to Parliamentary Researchers.
 - Administering 14 research projects that seek to improve the pro-poor impact of budget programmes.
 - Managing the Secretariat of the Collaborative Africa Budget Reform Initiative and assisting with preparations for the second Budget Reform Seminar, held in Maputo.
- The International Development Cooperation Unit is responsible for the establishment of an effective and efficient policy framework and management system to deal with Official Development Assistance (ODA) in South Africa. The unit achieved various objectives, including the following in the 2005/06 financial year:
 - Implemented a policy framework and procedural guidelines for effective and efficient management of ODA flows in South Africa.
 - Enhanced coordination through the ODA co-ordinator's forum.
- The Public Finance Statistics Unit focuses mainly on the production of appropriately classified fiscal data in various National Treasury publications in support of fiscal transparency and accountability. In the 2005/6 financial year, the Unit focused on consolidating reforms.

Nonetheless, the focus for the forthcoming years will serve to ensure that the coverage of consolidated budgets is extended to include all government entities. This will be undertaken through the refinement of consolidated budgeting proposals and by designing appropriate reporting procedures and formats to capture and verify data for such institutions.

- In the 2005/06 financial year, the Public-Private Partnership (PPP) Unit expanded by establishing a municipal desk, which registered 51 projects. The aforementioned projects were reported as being in the feasibility and procurement stages whereas 12 projects were reported to be in the implementation stage.
- The Treasury has formulated the Public Entities Governance Unit in the Budget Office, which seeks to implement the recommendations of the 2004/05 public entities governance framework review. It is recommended that the unit play a key role in organising public entities in a manner that will improve the oversight of such entities. In the 2005/06 financial year, 7 entities were de-listed, 10 entities were listed, and one entity was reclassified.
- The Public Finance division is serviced by various sector units that advice and keep track on fiscal performance in their respective sectors of expertise. These sectors comprise of Justice and Protection Services Unit, Social Services Unit, Administrative Services, Economic Services, Technical Assistance. All the aforementioned units within these divisions have provided crucial support to organs of state, particularly government departments.
- The Economic Policy and International Financial Relations division focused on the formulation and co-ordination of appropriate growth-enhancing policies, as well as understanding the bottlenecks in the economy and identifying constraints of economic growth. The Unit has had significant successes in the 2005/06 financial year in the form of workshops and producing a research paper. It further continues to strengthen its role on providing policy advice through economic modelling and monitoring. The Macroeconomic and Tax Policy Units advise on macroeconomic (including ASGISA) and Tax issues.
- In 2005, the Tax Policy Unit completed proposals on retirement tax reform and the taxation of medical aid contributions. Moreover, the Unit focused on tax proposals to support the 2010 FIFA World Cup. The Unit completed its proposals on phasing out the RSC levy, and further considered provincial tax proposals relating to the fuel levy.

Issues to Consider

- The various divisions of the Treasury in this programme have provided detailed information regarding their activities and outputs in the 2005/06 financial year. In this regard, various units have engaged in international and local bodies and events, produced papers on specific subjects, supported and advised government departments and other organs of state regarding policy and financing issues. These units have also contributed in the general monitoring of government by ensuring proper implementation of financial legislation and providing training. The Treasury further supported and trained both Parliamentary Committees and staff in the 2005/06 financial year.
- South Africa also plays an important role at the IMF, G20 and other global governance institutions. In this regard, proposals are on the table to reform the governance structures of the Breton Woods institutions and of which South Africa will play a key role on this issue.
- The Treasury also considered developing a new instrument to provide high-access, contingent financing for countries that have strong macroeconomic policies, but which nevertheless remain vulnerable to shocks.
- The report indicates that at the end of the 2005/06 financial year, 51 PPP projects had been registered with the unit as being in feasibility and procurement stages (the 2006/07 Estimates of National Expenditure indicates 53 projects between 2002 and 2005), and 12 projects were in implementation stages. However, it is unclear what targets the Treasury had utilised to measure these outputs.
- The Budget Office had targeted 21 African countries be involved in the Africa Network of Senior Budget Officials. However, only 16 member countries attended the second Budget Reform Seminar in Maputo, while other four countries (these are not mentioned by name) remain active members.
- Most of the work that is carried out by the Public Finance Division is continuous as it entails monitoring government expenditure and policy analysis.
- In terms of the quarterly reports on budget implementation of municipalities, reports were published for 20 municipalities in the first quarter. However, no report was published in the second and third quarters of 2005/06 due to the lack of quality information. This is critical and poses some questions of clarity due to inability of the National Treasury to reach its expectations in the first quarter, which then fell back in subsequent quarters. However, the report indicates this as a key focus area for the 2006/07 financial year, particularly with the improvement of quality of data. It is recommended therefore that the Treasury present to the Committee the differences between the first quarter's data and subsequent data.
- The Treasury received Municipal Finance Management Act (MFMA) implementation plans for 266 municipalities, which excluded other 18 municipalities.

- The Economic Policy and International Financial relations subprogramme has prepared and submitted to Parliament the second draft of the Mining and Petroleum Royalty Bill. However, there have been delays in terms of consultations with stakeholders.
- The second draft of both the Cooperatives Banks and Dedicated Banks bills were developed and anticipated to be published in the 2006/07 financial year.
- The Treasury was not able to fully develop and implement the Finance and Investment Protocol as has been targeted. Moreover, the report is not clear on whether the targets pertinent to the development of proposals on highly indebted country reform and other continental and regional matters such as NEPAD were achieved.

3.3 Asset and Liability Management Programme

The purpose of the asset and liability management programme is to ensure the prudent management of government's financial assets and liabilities. The programme is divided into five subprogrammes, namely *Management, Liability Management, Financial Operations, Strategy and Risk Management* and *Asset Management*.

Recent Outputs

- Lower budget deficit led to net borrowing requirement to be adjusted downwards in 2005. However, this was financed through the issuance of domestic short-term and long-term loans, foreign long-term loans, as well as changes in cash and other balances.
- Bonds worth R4.5 billion were issued to the South African Reserve Bank as a final settlement for the R28 billion realised losses on the Gold and Foreign Exchange Contingency Reserve Account. Furthermore, turnover on the bond exchange declined marginally due to the buy-and-hold strategies of investors that increased derivative activities. In addition an increased liquidity of the South African bonds that are trading outside the country contributed to the aforementioned declined on bond exchange.
- All three major rating agencies upgraded South Africa's sovereign credit rating because of South Africa's prudent macroeconomic policy, fiscal and debt management. The emphasis was on reviewing the debt portfolio benchmark, limits on the investment of surplus cash, as well as monitoring and analysis of Country's risk. Foreign debt comprised 12.7% (against a target of 20%) and domestic debt 87.3% (against a target of 80%). The small portion of foreign debt has contributed to improving the Country's credit rating. In terms of floating versus fixed debt, the composition was 23.5% floating (30% target) and 76.5% fixed-income bond (70% target).
- Debt service cost as a percentage of GDP declined further to 3.26% of GDP, compared to the previously projected 3.5% of GDP. The decline results from prudent macroeconomic policies, lower absolute levels of

interest rates, the introduction of lower coupon bonds a stable currency and active management of the debt portfolio.

- All provinces opened corporation for public deposit accounts, resulting in savings of 3% on borrowings and approximately 1% higher return on investments.
- The Treasury also worked in partnership with the South African Reserve Bank to ensure fiscal and monetary stability. Furthermore, it still continues to assess the effectiveness of State-Owned Enterprises, which play a crucial role in economic growth and development. State-owned enterprises have started investing financial resources in key infrastructure projects that are intended to attract higher levels of sustainable investment in the economy.

Issues to Consider

- The Liability Management subprogramme achieved an R8.1 trillion bond turnover, as opposed to the targeted R9 trillion. This resulted from reduced domestic issuance by government and parastatals, buy-hold strategies, increased derivatives activity and increased turnover in Euroclear.
- Back office system was partially achieved due to business requirements prepared by the State Information Technology Agency, which had to be redone and thus delayed the acquisition by four months.
- However, the Asset Management subprogramme was unable to achieve a review of 20% Development Finance Institutions (DFIs). This is indicated by an absence of the reviewed DFIs. The unit however, created a new DFI directorate and appointed a DFI expert as project coordinator.
- Nevertheless, the Treasury is looking at incorporating guidelines related to State Owned Enterprises into Treasury Regulations.

3.4 Financial Management and Systems Programme

The purpose of the *Financial Management and Systems Programme* is to manage and regulate government supply-chain processes, implement and maintain standardised financial systems, and coordinate the implementation of the Public Finance Management Act (PFMA) and related capacity building initiatives. The programme is divided into three subprogrammes, namely, *Supply Chain Management*, *PFMA Implementation and Coordination*, and *Financial Systems*.

Recent Outputs

- Departments continued with the phased implementation of the Supply Chain Management Framework². In addition, implementation of the Municipal Supply Chain Management Regulation also resumed in the 2005/06 financial year, whereby 157 municipalities and municipal entities started to implement supply-chain management.
- The National Treasury, in consultation with the Department of Trade and Industry, is in the process of reviewing preferential procurement regulations to align it with the Black Economic Empowerment Act, No. 53 of 2003.
- An electronic reporting mechanism was developed, and is being rolled out to national and provincial departments to support the monitoring and reporting process.
- PFMA Implementation and Coordination has worked closely with the Standing Committee on Public Accounts and the Portfolio Committee on Finance on the Treasury's initiatives to assist departments with the implementation of the PFMA. The Treasury has also engaged external training service providers for training provision on supply chain management, standard chart of accounts, risk management and internal audit.
- The Treasury has produced a document that guides legislatures in carrying out oversight through annual reports, from which Parliament developed an operational plan.

Issues to Consider

- The promulgation of the new preferential procurement regulations has been delayed from 2005 (target) to September 2006. The PFMA Implementation and Coordination Unit delayed on several targets. On contrary, the Unit delivered the necessary reports to Cabinet and Parliament.
- The Unit was unable to achieve its target of training courses on the implementation and financial reforms. The training related specifically to standard chart of accounts (88 instead of 135 courses), supply chain management (113 instead of 120 courses) and migration from cash to accrual accounting (81 instead of 100 courses).

3.5 Financial Accounting and Reporting

The Financial Accounting and Reporting Programme aims to achieve accountability by promoting transparency and effective management of revenue, expenditure assets and liabilities in the public sector. The programme consists of six subprogrammes, namely *financial Reporting and*

² The Supply Chain Management Framework organs of state to establish supply chain management units within the offices of the respective chief financial officers, to ensure that clear lines of authority and accountability exist to improve sourcing procedures and processes, and to enhance asset and inventory management.

National Accounts, Financial Management Improvement, Investment of Public Monies, Service charges (Commercial Banks), Audit Statutory Bodies and Contingent Liabilities: Reinsurance Liabilities.

Recent Outputs

- The *Financial Reporting for National Accounts Unit* produced a set of consolidated financial information for national government that was audited and tabled in Parliament. In addition, the Unit developed a standardised financial reporting template during the year in consultation with relevant stakeholders such as the Auditor-General, public entities and departments. Great emphasis was placed on the templates and accounting reforms implementation during the 2005/06 financial year.
- The Unit further embarked on MFMA workshops. More time and effort was invested in further training, road shows, and workshops.
- The Internal Audit and Risk Management Unit focused on implementing the internal audit and risk management frameworks and providing support to internal auditors and risk managers across all spheres of government. This was undertaken to improve the capacity and value of these activities in respect of the management of reporting entities. The Unit further focused on strengthening and enhancing the work of audit committees.
- The risk management system was implemented and availed to all government departments and municipalities. In addition, risk assessments were conducted in government departments and guidelines for forensic investigations were developed to assist departments when conducting such investigations.

Issues to Consider

- This programme plays a significant role in supporting government through various forms of training.
- The proposal for the public sector audit committee forum was delayed after consideration of comments and issues raised by internal and external stakeholders, including audit committee members.

3.6 Provincial and Local Government Transfers Programme

The Provincial and Local Government Transfers Programme designs, manages and monitors three conditional grants to the provincial and local spheres of government, which include:

- The Provincial Infrastructure Grant.
- The Local Government Financial Management Grant.
- The Local Government Restructuring Grant.