

State Expenditure

Aim

The Department of State Expenditure aims to produce controlled, accurate and timely financial results of the highest standards by developing norms and standards, systems for monitoring financial performance and professionally qualified managers in all spheres of government through integrated financial systems, the effective management of information and resources and professionally trained people.

Policy developments

The structure of both the Departments of Finance and State Expenditure is currently under revision to give effect to the establishment of the national Treasury, as required in terms of the Public Finance Management Act of 1999. The Act is part of a broader strategy to improve financial management in the public sector. It replaces or overrides the national and provincial Exchequer Acts of 1975 and supersedes financial management provisions in other legislation. The Act comes into effect on 1 April 2000, but not all of its provisions will be effective from this date; some will be phased in later as departments must first be trained in the requirements of the Act. The Act includes strong provisions to counter financial and asset mismanagement. However, the initial emphasis will be on empowering departments rather than on punitive action, as the goal is to transform and modernise public finance management as quickly as possible.

In 2000/01, the Treasury will work with several national and provincial departments in pilot programmes to ensure the best possible structures, systems and training. The lessons learnt will be disseminated to other departments to improve the quality of implementation of the Act.

The Treasury is implementing a management information system in all national and provincial departments. It is known as “Vulindlela”, which means “to open the way”. This system will facilitate access to financial and other key information in different departmental systems. Vulindlela also supports the Treasury’s Early Warning System, which provides monthly forewarning of potential departmental over expenditure, as the Act requires.

Expenditure estimates

Table 12.1 Expenditure by programme

R million	Expenditure outcome			Revised estimate	Medium-term expenditure estimate		
	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Administration	16,2	30,5	22,1	31,6	29,4	33,3	34,1
Expenditure management	25,7	12,6	16,1	17,1	25,5	31,2	34,5
Logistics management and the Office of the State Tender Board	11,6	13,6	15,0	14,7	18,5	18,2	21,0
Financial reporting systems and internal control	100,4	146,5	201,6	189,6	330,9	263,8	294,5
Auxiliary and associated services	911,5	776,6	804,5	899,9	895,9	1 076,2	1 113,7
Transfer to Sita	68,9	85,3	100,1				
Departmental vote	1 134,3	1 065,1	1 159,4	1 152,9	1 300,1	1 422,6	1 497,8
Public works ¹							
Total	1 134,3	1 065,1	1 159,4	1 152,9	1 300,1	1 422,6	1 497,8
Change to 1999 Budget estimate	–	–	–	(28,0)	18,3	82,3	–

¹ Appropriated on Vote 26: Public Works.

- *Administration* comprises financial management, personnel and provisioning administration, legal and other office support services, and the formulation of policy by the Minister and management of the Department.
- *Expenditure management* deals with the strategic management of the budgeting process and with expenditure and performance management.
- *Logistics management and the Office of the State Tender Board* is responsible for managing purchases in the public sector and exercising control over movable assets, as well as logistics.
- *Financial reporting systems and internal control* provides, implements and maintains financial systems. Training of the financial management team is another core activity. This programme also provides accounting services for the National Revenue and RDP funds and provides banking services to national departments.
- *Auxiliary and associated services* makes transfer payments to the Secret Service and delivers other finance-related services.

Table 12.2 Economic classification of expenditure

R million	Expenditure outcome			Revised estimate	Medium-term expenditure estimate		
	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Current							
Personnel	41,2	40,3	43,6	45,1	58,8	60,8	62,1
Transfer payments	912,3	782,4	806,1	881,5	992,7	1 072,9	1 108,2
Other	116,0	163,3	210,5	216,7	242,6	282,3	323,1
Capital							
Transfer payments	61,4	75,3	92,5	–	–	–	–
Acquisition of capital assets	3,4	3,8	6,7	9,6	6,0	6,6	4,4
Total	1 134,3	1 065,1	1 159,4	1 152,9	1 300,1	1 422,6	1 497,8

Transfer payments rise from R881,6 million in 1999/00 to R1 108,2 million in 2002/03, largely reflecting increased transfers to the Secret Services over the period. The increase in other current

expenditure from R216,7 million in 1999/00 to R323,1 million in 2002/03 is mainly due to additional professional fees for maintaining financial systems. Between 1996/97 to 1998/99 capital transfers were made to departments for purchasing equipment in terms of the financial management improvement plan.

Programme 1: Administration

Table 12.3 Programme expenditure

R million	Budget estimate	Adjusted appropriation 1999/00	Revised estimate	Medium-term expenditure estimate		
				2000/01	2001/02	2002/03
1999 Budget	27,8	36,0	31,6	28,8	30,5	–
2000 Budget	–	–	–	29,4	33,3	34,1
Change to 1999 Budget estimate	–	8,2	3,8	0,6	2,8	–

Administration comprises financial management, personnel and provisioning administration, legal and other office support services, the formulation of policy by the Minister and management of the Department. The slight rise in baseline estimates to R29,4 million in 2000/01, and R34,1 million in 2002/03 is due to provisions for increases in remuneration.

Programme 2: Expenditure management

Table 12.4 Programme expenditure

R million	Budget estimate	Adjusted appropriation 1999/00	Revised estimate	Medium-term expenditure estimate		
				2000/01	2001/02	2002/03
1999 Budget	23,5	23,4	17,1	24,1	29,7	–
2000 Budget	–	–	–	25,4	31,2	34,5
Change to 1999 Budget estimate	–	(0,1)	(6,4)	1,3	1,5	–

Expenditure management comprises three subprogrammes:

- Policy research is concerned with the formulation of policy on the financial management process of Government. This subprogramme sets norms and standards for the financial management process at all levels of Government.
- Budget planning includes the planning and preparation of the Main, Supplementary and Adjustments Estimates of Expenditure for national departments. This subprogramme is also responsible for the preparation and publishing of reports on the consolidated expenditure of national government.
- Expenditure control evaluates and renders advice on national departments' budget inputs and expenditure with regard to social and intergovernmental, economic, protection and functional services. The programme also supports the Ministry of Finance in terms of parliamentary issues and project management.

Outputs and service delivery trends

Table 12.5 Expenditure management: Key activities and outputs

Key activities	Outputs
Policy research	
Develop policy on performance budgeting	Provide advice on performance budgeting Develop and make proposals on or changes to the format of the Estimates of Expenditure Develop policy on departmental strategic planning
Coordinate uniform treasury norms and standards	Publish the National Treasury Regulations
Planning	
Plan and prepare the Main, Supplementary and Adjustments Estimates of Expenditure	Three budgets per year, including supporting documentation
Obtain, consolidate and publish spending results	Quarterly reports to Cabinet Publish monthly actual expenditure and revenue figures
Budget analysis and interpretation	
Compliance in terms of financial regulations	Timeous recommendations to the Medium Term Expenditure Committee (MTEC), within guidelines in line with government policies and priorities. Approvals or disapprovals of departments' requests in terms of Exchequer Act
Support to management and the ministry	Comments on Accountant-General's reports Comments to the Minister on Cabinet Memoranda
Render dispensation service	Approvals and disapprovals of Department's requests in line with the Exchequer Act, Public Service Act and other applicable Acts

The activities of *Expenditure management* enable the Department to evaluate budget inputs to ensure that Government priorities are achieved within the MTEF. Detailed analysis and evaluation of budget proposals resulted in the scaling down of departmental budgets to within affordable expenditure limits, as incorporated in the MTEF. The table below shows the difference between requests from departments and final allocations.

Table 12.6 Requests and allocations under the MTEF

R million	2000/01	2001/02	2002/03
Baseline (MTEF)	83 012,7	86 124,6	89 074,8
Additional request	14 137,8	13 734,8	16 110,9
Total requested	97 150,5	99 859,4	105 185,7
Funds allocated	85 087,5	89 880,7	94 154,6
Difference	12 063,0	9 978,7	11 000,1

The Department is also currently evaluating practices in cost management, as defined by the International Federation of Accountants. This will ensure that requests for rollovers are minimised and will promote a culture of adherence to effective and efficient management of public finances among departments. Cost management practices will improve the evaluation of budget inputs in terms of the outputs and services that the budgets will buy, and ensure that expenditure remains within allocations.

The Early Warning System improves the monitoring and reporting on national and provincial spending trends by comparing actual and projected expenditure on a monthly basis. Any under- or overspending is brought to the attention of Cabinet, for the responsible minister to take appropriate action. This improves cash management and minimises cash borrowing by Government. From 1 April 2000, actual expenditure and revenue collections are to be published monthly in the Government Gazette for national departments and quarterly for provincial departments.

Policy developments

The activities of the policy research subprogramme include the development of policy and advice on performance budgeting practices. The subprogramme also develops policy on departmental strategic planning issues, as part of the introduction of performance budgeting. The coordination of uniform treasury norms and standards among the various branches of the Departments of Finance and State Expenditure will, after consultation with all role players, result in the publication of National Treasury Regulations.

Programme 3: Logistics management and the Office of the State Tender Board

Table 12.7 Programme expenditure

R million	Budget estimate	Adjusted appropriation 1999/00	Revised estimate	Medium-term expenditure estimate		
				2000/01	2001/02	2002/03
1999 Budget	17,9	17,4	14,7	18,7	20,0	–
2000 Budget	–	–	–	18,5	18,2	21,0
Change to 1999 Budget estimate	–	(0,5)	(3,2)	(0,2)	(1,9)	–

The programme *Logistics management and the Office of the State Tender Board* manages purchases in the public sector and controls movable assets and logistics. The programme comprises three subprogrammes: Norms and standards, the State Tender Board and Logistics control:

- The Norms and standards subprogramme is responsible for the formulation of norms and standards, with specific reference to the government procurement process.
- The State Tender Board manages the government procurement process and is responsible for evaluating the cost-effectiveness of all procurement through the tendering system.
- Logistics control is responsible for formulating norms and standards on logistics management and movable assets, as well as for monitoring departmental compliance.

Outputs and service delivery trends

Table 12.8 Logistics management and the Office of the State Tender Board: Key activities and outputs

Key activities	Outputs
Logistics management	
Logistics training	Training of personnel regarding provisioning administration Training of members of the Tender Board regarding the tender process
State Tender Board	
Evaluate tender memoranda	Evaluation of tender memoranda
Promote historically disadvantaged individuals	Allocation of contracts to historically disadvantaged applicants

Logistics control is subdivided into Logistics training and Logistics monitoring. During 1999/00, logistics training completed training of:

- 1 339 personnel on provisioning administration
- 93 members of the Tender Board on the tender process

- 23 trainers.

Other achievements include:

- The establishment of training components for logistic management in provinces
- Evaluation of logistic training material
- Coordination of logistics training country-wide
- Determination of training requirements and methods
- Information sessions and workshops to empower all role players in logistics management
- Establishment of a database on training, tender procedures and provisioning administration.

The Logistics monitoring subprogramme aims to ensure savings through the sharing of services, including the monitoring of norms and standards, tender procedures and movable assets. Previous versions of the provisioning administration system were stabilised and 40 users have been converted to the Logistics Information System (Logis). A further 38 sites were identified for conversion. Logistics monitoring intends to increase the number of sites on the Logis system to improve monitoring and budgeting for movable assets.

The Balanced Scorecard serves as a management information tool and has been developed to monitor and provide feedback on key performance areas for logistics management, for instance stock turnover period, value of movable assets such as furniture, and the value of redundant, obsolete or damaged stock.

Continued monitoring and assistance with procurement, provisioning and management of stock levels were highly successful in the Department of Defence and in the SAPS. For instance, in support of the National Conventional Arms Control Committee, 399 tons of ammunition and 129 tons of weapons confiscated by SAPS were destroyed, resulting in savings on storage and administration cost.

The Department continued to evaluate the cost-effectiveness of all procurement through the tendering system administered by the State Tender Board. All procurement requests and tender recommendations are evaluated thoroughly, and a forum is being created to facilitate the move to a more uniform tender system.

Between April and December 1999 the Tender Board evaluated 569 memorandums. Contracts to the value of R788 million were allocated to historically disadvantaged individuals; other contracts amounted to R5 010 million.

Policy developments

The Preferential Procurement Policy Framework Act was promulgated in January 2000. Tender evaluations will be based on a 90:10 ratio, where 90 per cent of the value of each tender will be evaluated in terms of cost considerations and 10 per cent in terms of preferences towards historically disadvantaged individuals. The State Tender Board is developing a White Paper on Procurement, which aims to improve uniformity and monitoring of the procurement process in Government. The White Paper should be finalised during the first quarter of 2000.

Programme 4: Financial reporting systems and internal control

Table 12.9 Programme expenditure

R million	Budget estimate	Adjusted appropriation 1999/00	Revised estimate	Medium-term expenditure estimate		
				2000/01	2001/02	2002/03
1999 Budget	174,4	198,2	189,6	261,6	307,4	–
2000 Budget	–	–	–	330,9	263,8	294,5
Change to 1999 Budget estimate	–	23,8	(15,2)	69,3	(43,6)	–

Financial reporting systems and internal control provides, implements and maintains financial systems for the Department, provides accounting services for the National Revenue Fund and the RDP Fund, and banking services to national departments.

The programme comprises three subprogrammes:

- Information management takes responsibility for the provisioning, implementation and maintenance of existing and new integrated financial management information systems.
- National accounts include the funding of departmental bank accounts and provision of a banking service. The subprogramme is also responsible for the development, implementation and maintenance of a financial reporting system for the National Revenue and RDP funds, as well as the preparation of annual consolidated financial statements.
- Financial training is responsible for the facilitation of financial management education and training, and for assistance to the Institute for Public Finance and Auditing.

The estimates are increased by R69,3 million in 2000/01, mainly for the inclusion of the financial management improvement plan shifted from *Associated and auxiliary services*. Initiated in 1999/00, the plan is a 5-year programme that aims to improve financial management within national and provincial government, in line with the Public Finance Management Act. The programme will support the implementation of an integrated financial system, accrual accounting, enhanced internal control systems and the building of financial management capacity in human resources. The European Union will support this programme by providing approximately R76 million of donor funding between 1999/00 and 2002/03.

Outputs and service delivery trends

Table 12.10 Financial reporting systems and internal control: Key activities and outputs

Key activities	Outputs
National accounts	
Timely statements for the National Revenue and RDP funds	Monthly and annual statements
A payments and deposit system for national departments	Serving clients
Processing of warrant vouchers and deposits	Daily processing
Financial training	
In-house basic and systems training courses	Training officials
Monitoring financial management performance of national and provincial departments	Monitoring activities of departments
Financial systems	
Maintenance of Persal, BAS, FMS, Logis and Vulindlela	Satisfying policy and core client and user requirements
Training and support for users on the different systems	BAS, FMS, Vulindlela
Implementation of the MIS	27 departments and 3 000 users

During 1999/00 this programme produced 26 statements for the National Revenue Fund and the RDP Fund. It provided a payments and deposit system for 92 clients and processed 2,3 million

warrant vouchers and deposits. About 2 000 officials obtained inhouse basic and system training and the activities of 40 departments were monitored in terms of financial management performance.

In the past year the programme served the following numbers of clients and users:

- Integrated Computerised Personnel and Salary system – 130 clients and 2 850 users
- Basic Accounting System (BAS) – 100 clients and 2 000 users
- Financial Management System (FMS) – 100 clients and 2 000 users
- Logistic Information System – 43 clients and 500 users
- Management Information System (Vulindlela) – 43 clients and 2 500 users.

Policy developments

The financial systems of Government are not currently integrated, resulting in:

- different hardware and operating systems, with multiple interfaces and duplication of work
- an inability to utilise latest technology trends and delivery channels, such as web-enabled solutions and e-commerce
- limited reporting capabilities for management and external users.

These concerns are further complicated by:

- inadequate financial management skills and capacity
- high administration costs and a dependency on contractors.

The implementation of the PFMA requires an integrated financial system that allows Government to report its financial operations on an accrual basis, complying with generally recognised accounting practice. Training and capacity building are fundamental to the success of the new system.

Programme 5: Auxiliary and associated services

Table 12.11 Programme expenditure

R million	Budget estimate	Adjusted appropriation 1999/00	Revised estimate	Medium-term expenditure estimate		
				2000/01	2001/02	2002/03
1999 Budget	861,5	900,0	899,9	862,8	863,2	–
2000 Budget	–	–	–	895,9	1 076,2	1 113,7
Change to 1999 Budget estimate	–	38,5	38,4	33,1	213,0	–

Auxiliary and associated services comprises the following:

- The subprogramme Secret Services manages transfer payments to finance the activities of the Secret Services. The mission of the Secret Services is to conduct intelligence in relation to external threats, opportunities and other issues that may affect the Republic, with the aim of promoting the national interest of the country and its citizens.
- The service charges subprogramme manages bank charges on deposits made by national departments.

The notable increases in the baseline estimates to R895,9 million in 2001/02, R1 076,2 million in 2001/02 and R1 113,7 million in 2002/03 are largely due to the increased allocation to Secret Services. Allocations to the secret services are R883,3 million in 2000/01, R923,3 million in 2001/02 and R960 million in 2002/03.