political and legal commitments unless one is prepared for the costs, disruption and negative reputational consequences of reneging on them.

Perhaps the most important 'rigidity' is that the Minister of Finance has very little control over the allocation of most public spending. Most budgetary decisions at local and provincial level fall within the legal competencies of those spheres of government, and while the National Treasury and the Minister play a role in trying to steer these decisions, constitutionally they have limited powers in this regard. The Constitution does however provide that the national government can strip a province of its authority to manage its own finances if that province appears to lack the capacity to fulfil this function satisfactorily.

The Minister has relatively more authority over provincial spending, financed from the 'equitable share' of the national fiscus, than over local government, financed largely from its own revenues. In addition, because bad spending decisions in one province might lead to unsustainable patterns of spending, impacting on the overall soundness of public finances and quality of inter-governmental relations, any problems with provincial spending patterns must be identified as early as possible and rectified in ways that do not lead to further problems. This is done through the following process:

The equitable share formula used by National Treasury sets out how much to allocate to provinces as a whole and to each of the provinces individually, according to the statutory responsibilities of provinces and the population each must serve. In theory, it is the Fiscal and Finance Commission's responsibility to develop the formula. Disagreements between the National Treasury and the FFC about the practicality of the latter's formula have meant that in practice, the division of revenue between national and provincial spheres and between provinces departs from FFC's formula.

- Once the equitable share has been determined, provinces are informed about the likely value of their aggregate budgets in the September/October before the next financial year, and are expected to run their own budget processes to prepare draft budgets by December.
- Draft provincial budgets are discussed with the National Treasury to establish if all statutory commitments are adequately financed. Provinces are expected to make adjustments to their draft budgets if gaps are identified, as the failure of a province to

cover these might create a burden on public finances as a whole. There is also some evaluation of the extent to which resource allocation by provincial governments is in accordance with national priorities identified at the extended Cabinet lekgotla in July. Generally, provincial treasuries respond well to any guidance that might be provided in this regard.

- Finally, provinces are allocated resources during the budget and each prepares their own provincial division of revenue bill in which funds are allocated to each provincial department.

Although provincial governments have a high degree of autonomy in deciding how to allocate their funds, there are a few ways in which decisions of the national sphere impact on provincial spending. Perhaps the most important is that some of the statutory and contractual commitments that drive spending in government are decided at national level. Importantly, any changes to the working conditions and salaries of civil servants are determined in negotiations at the national level. This impacts on provincial budgets as most provincial spending is on personnel, especially the salaries of teachers and nurses. Similar effects are felt when national government decides to implement changes to certain benefit values, such as raising the housing subsidy or reducing the freedom of schools to impose fees. As imposing 'unfunded mandates' on provinces is both legally impermissible and fiscally reckless, these kinds of changes always require making adjustments to provincial budgets.

Another kind of national-provincial interaction occurs around 'conditional grants'. These are funds which are allocated to the national sphere, but transferred to provincial governments for the achievement of specific objectives.

The last national- provincial interaction relates to overspending on provincial budgets that continues to occur, though less frequently than they once did. To avoid unaffordable spending by provinces, which would compromise the national fiscus, the Minister of Finance hosts four Budget Council meetings every year at which the National Treasury reports on its analysis of current spending patterns and identifies any risks of overspending. Provinces whose spending seems likely to overshoot their budgets can implement necessary control measures. Where these are not implemented or successful, and when overspending does occur, it is typically treated as a charge against the next budget of the province in question to discourage weak financial management and bad budgeting.

Equally problematic as overspending is the under-spending that sometimes occurs, especially on capital budgets. This means that government does not achieve the macroeconomic effects that its fiscal policy stance was intended to achieve and that provinces are not delivering on their developmental commitments.

Finally, the MTEF is also a 'rigidity' of the budget process. Since 1998, every budget has been accompanied by forward estimates of the budgets for the next two financial years. These estimates are not legally binding on government, so it is possible for the actual budgets of the out-years to depart from the forward estimates, which frequently occurs. These departures from the original estimates, however, have tended to be upward-revisions of budgets because (i) revenue has tended to grow more quickly than anticipated, (ii) adjustments have had to be made for higher than expected inflation rates, and/or (iii) resources previously allocated to the contingency reserve are released for allocation.

While raising budgets is relatively easy, the cutting of budgets below forward estimates, while legally possible, is politically difficult. It would also be operationally difficult, as the three-year budget cycle was introduced to give government departments longer planning horizons. Prior to this, departments had little insight into the resources they were likely to have over the medium-term, and tended to shy away from making decisions that would result in increased future spending. Now that the information is available and used in the compilation of strategic and operational plans, making cuts to the forward estimates of out-year budgets would impact negatively on those plans.

As a result of these various rigidities, as little as five per cent of the resources available for allocation are genuinely uncommitted in any given budget process, although government can slowly change the basic structure of allocations. However, the freedom to make optimal allocations is constrained by another kind of rigidity, one that may be thought of as 'political'.

The politics of resource allocation

While all members of the Cabinet are committed to a common programme, many in the executive branch of government are beset by what former British Cabinet Minister Gerald Kaufman called 'departmentalitis': the strongly-held conviction that the services delivered by their particular department are the most important in all of government.

Those afflicted by 'departmentalitis' will act almost as if they are shop-stewards, preferring to punt departmental interests ahead of other priorities, arguing for dramatic increases in their budget, and resisting ferociously the prospect of even a modest cuts to their wish-lists. Hence, even within the narrow envelope of funds which are relatively uncommitted, each department will expect its 'fair' share. Government's freedom of action will be correspondingly curtailed as additional resources get distributed in ways that reflect existing spending patterns.

There are ways in which the Minister of Finance and National Treasury can approach these problems to maximise resource allocation. Before elaborating on issues relating to the allocative process, however, it is important to look at a crucial decision that must be made early in the course of preparing the budget: how much money will government spend in the financial years for which the budget is being prepared?

Deciding on the fiscal envelope

An important set of decisions made in the course of every budget is related to the size of the overall budget and the manner in which it will be financed through taxation and borrowing.

While it is acceptable to borrow money, the reputational consequences of defaulting mean that the first priority when managing government's finances is to ensure that the overall debt levels remain sustainable. This sustainability is determined primarily by the value of the national economy and the rate at which it is growing. Other factors, such as the state of domestic and international credit markets, may also affect sustainability. The main point is that if debt levels are growing faster than the economy, at some point the burden of debt will become too large. Indeed, government will begin to find it difficult to raise funds even before that debt level is reached.

Public borrowing, however, finances only a small proportion of government spending (averaging less than three per cent a year over the past decade), even when fiscal policy is relatively expansionary. The vast bulk of spending is financed through revenues, most of which come from taxes on income, profit and consumption.

The value of the taxes accumulated is determined by two things: the nominal value of GDP, and policy choices made in relation to the level of taxation. As suggested earlier, the value of national income depends on a variety of factors, including trends on the supply side of the economy, and spending decisions of economic agents affecting the growth rate of aggregate demand.

Each of the variables determining the final value of national income is in turn determined by other variables: the interest rate affects saving and borrowing decisions, global growth rates and changes in the value of the rand affects the value of exports, market sentiment is affected by political processes, and so on. The net effect is that trends in the economy largely determine how much tax is likely to be collected, and are not readily amenable to change by government policy-makers. Instead, they must be forecast using models of household and business spending decisions, which may sometimes be off the mark.

Given the uncertainties, a Minister of Finance listens to all sides of these debates before coming to his or her own conclusions. However, these forecasts will appear in the National Treasury's documentation and perused obsessively by lenders, investors and rating agencies. It is crucial, therefore, that the estimates that are eventually published are credible. If not, market participants will seek to profit from the mistakes they believe to have been made.

Apart from national income, tax policy is also critical to the level of revenue and is an area which government has complete control over.

Taxation and budget-making

In 2007/08, taxes amounted to just under 28 per cent of national income. This figure is subject to policy control, and there are ways in which it might be raised if government thought it necessary or appropriate. There are, however, costs to raising the tax to GDP ratio. Related to this is the fact that the present ratio of tax to GDP, at 28 per cent, is already nearly a quarter larger than it was in 1995/96. While this has been achieved largely through the broadening of the tax base, improved efficiencies at SARS and better enforcement rather than by raising tax rates, the burden of taxes on the economy has still risen relatively rapidly. Furthermore, 28 per cent is already somewhat higher than the international average of 25 percent, as estimated by the World Bank for 2005/06. It is also higher than the average for both SADC and for lower- and middle-income countries, though less than the tax rates of some developed countries.

These facts matter as high tax rates are sometime associated with slower economic growth rates – businesses and individuals may enjoy fewer returns on their economic efforts as taxes rise. Depending on compliance levels however, a fall in economic growth as a result of rising tax rates may still leave government with higher revenues than it would otherwise have had. Nevertheless, lower rates of economic growth and job creation over the long term will make it harder to meet developmental challenges. Rising tax-to-GDP levels also often mean increases in tax avoidance rates, sometimes undermining anticipated rises in revenues. Further, because the rapid rise in the tax-to-GDP ratio has happened in the context of rapid economic growth, there is some danger that current models could underestimate the negative growth effect of rising taxes, and caution is warranted.

Even if government were to come to the decision that the aggregate taxation level should rise, this could be harder to achieve now than it has been in the past few years when fiscal buoyancy (the rate of revenue growth divided by the rate of economic growth) sometimes reached 1.6. This level of buoyancy is both unusual and unsustainable, and together with the slowing economy means revenue growth is unlikely to be as robust as it has been in recent years.

While taxation-to-GDP ratios may be the subject of legitimate long-term policy debate, annual discussions about adjusting tax policy is usually more concerned with the appropriateness of raising or lowering of taxes in the prevailing economic circumstances. This relates to the role of fiscal policy in moderating the business cycle, such that raising taxes helps avoid 'overheating' an economy in a upswing and lowering them reduces the severity of a downswing. The opposite policies of lowering taxes in an upswing and raising them in a downturn would reproduce the pro-cyclical patterns of the past, which now complicate fiscal policy-making. To avoid this and improve policy-making, the National Treasury now produces an estimate of what is called the structural budget balance. This estimates the budget balance if cyclical effects of the business cycle were not in play. It has helped demonstrate the pro-cyclicality of fiscal policy in recent years. The budget can thus ideally be brought into rough structural balance over time. If this, or something similar, becomes the objective of fiscal policy and key to shaping the country's fiscal stance, it would tighten the parameters of debates about the appropriate taxation levels and provide some guidance to policy-making.

The allocation of the actual resources raises an altogether different kind of policy question.

Allocating resources through the budget process

The allocative efficiency of resources has already received some attention in this chapter, but its implications for the budget process and Minister of Finance requires further elaboration. Achieving optimal allocation requires a process that combines rigorous technical work with tight political leadership and oversight. The process must thus be comprehensive (dealing with all spending needs across government and society), fair (that gaps in the process do not privilege or prejudice some spending needs above others), and transparent (outcomes are understood and supported by all role-players and constituencies, and those who execute the budget can be held accountable for the effectiveness of their actions).

Other issues also need to be factored into the budget process. One such issue is that poorly designed processes can create perverse incentives. For example, if departments which under-spend on their budgets were routinely stripped of the 'savings' achieved, even if this was as a result of genuine efforts at economising, there would be no incentive to find ways to economise in the first place. Alternatively, if departments that overspent were routinely 'bailed out', there would be no incentive to bring the department's activities in on budget. Also, failure to recognise overspending as a consequence of factors beyond the spending institution's control could create cynicism towards the budget and its processes, leading to negative organisational and operational effects.

Another issue to consider is that the budget process needs to avoid trying to make all decisions about how much each department must spend on every service it offers. This is partly because no centralised process could consider every spending decision needed to be made, and partly because seeking to do so would undermine the role and accountability of managers in those agencies, absolving them of responsibility for poor decisions. The attention of policy-makers at the centre needs to be on issues where the cost or impact is sufficient enough to warrant that attention. However, this is difficult to define and there are few hard and fast rules about what is and is not worth spending time and energy on. Generally attention is focussed at the level of the programmes on (or 'main division' of) each department's Vote.

The budget process also needs to try and avoid the exclusive focus on requests for new funding to the exclusion of consideration of spending patterns and pressures in programmes that are already funded in a department's budget. If this happens, the budget process ceases to be comprehensive, with applications being made for discrete, project funding and existing spending patterns getting a free pass. The budget process therefore needs to also create the space to look into existing spending items, which do account for a larger proportion of the budget than new requests. However, rigorously fulfilling all these requirements is impossible given the scale and complexity of the national budget, with dozens of spending agencies offering hundreds of distinct services, each with its own autonomous managements and individual information systems. Inevitably, some issues are overlooked. Even with all the appropriate information to hand and processes seeming to work flawlessly, poor decisions may sometimes be made because of the complexity of issues and difficulty of choices.

The budget process has to be sufficiently strong and flexible to avoid breaking down in the face of its own short-comings.

The final point to be considered is that budgets and budgeting are deeply political in character. As mentioned, the broad patterns of revenue and expenditure in a budget are shaped in part by the political choices of a governing party and the social and political forces at play. But budgets are political in another sense too: genuine budgeting in which real choices are made almost always creates some degree of inter- and intra-organisational contestation within government.

This arises from the zero-sum nature of budgeting, in which the gains of one 'player' are losses to others, making contestation over resources inevitable. This can be channelled positively, so that heightened competition for funds leads to better budget documentation and better operational performance to attract increased funding. This is not inevitable however, and political competition for funds needs to be managed carefully to avoid becoming a drain on the energies of the Minister of Finance.

Much of the responsibility for minimising the effects of the budget process's inherent problems belongs to the Minister of Finance. He or she must ensure that the National Treasury has the structures and processes necessary for running a budget process, and that they work despite their own imperfections. Three critical things in this regard are:

- Ensuring that the budget process is genuinely collective, as this is essential for producing a sensible budget and helps provide political cover for the Minister of Finance, the National Treasury and its officials;
- Maintaining the integrity of the budget process; and
- Keeping unworkable and unaffordable spending proposals off the table.

Embracing the collective character of the budget as a statement of policy

The budget, as an expression of the policy choices of government as a whole, is something for which the Cabinet is collectively responsible. In practice, the budget process is designed to ensure that all departments and spheres of government shape the final budget. Indeed, most critical decisions in this regard are made by Cabinet, usually after the

Ministers' Committee on the Budget has considered the relevant issues and made a recommendation.

The collective nature of the making of the budget can be seen in the processes followed:

- Two years before any particular budget is presented to Parliament, its outline has already been presented to Cabinet, Parliament and the public at large as the second out-year estimate of the three-year MTEF;
- Amendments to original forecasts would have been presented to Parliament again in the next MTEF;
- In July in the year before the budget is presented in Parliament, an extended Cabinet lekgotla is held where the spending priorities for the next financial year are discussed and debated, and direction is given to the Minister of Finance by his or her colleagues;
- Key elements of the budget and critical decisions are generally taken only after consultation with MinComBud, which meets periodically to assess issues arising during the compilation of the budget, including the fiscal policy stance to be adopted;
- The submission of budget documentation by all departments to the Medium-Term Expenditure Committee (composed principally of officials from the National Treasury and Presidency), creating ample space for departments to prepare requests for increased funding, with substance and value not predetermined Treasury or the Minister of Finance;
- Four annual Budget Council meetings between the Minister of Finance and the nine provincial MECs of Finance are held, focusing on present spending trends and future budget needs of the provinces. This is supplemented by an annual, three-day Budget Council lekgotla which includes representatives of local governments;
- One of the principal meetings of MinComBud takes place in the September/October before the budget, after MTEC has had the opportunity to review the budget submissions of all national departments. Treasury prepares recommendations on the basis of this to seek guidance from Cabinet; and
- Four months before the budget is completed the Medium Term Budget Policy Statement, containing outlines of the key fiscal and allocative policy decisions, is presented to Parliament, having first been taken through Cabinet processes.

Furthermore, there are parliamentary debates and questions to focus attention on issues which may require funding, as well as Cabinet debates when ministers present memos about the challenges facing their departments or policies they wish to implement. Clearly, the budget is a genuinely collective process.

The collective process means that no policy or spending proposal is considered in the abstract or on the basis only of whether its benefits exceed its costs. Instead, it is possible that a collective process will result in evaluations into the proposals' desirability in the abstract, and in relation to the means available to government and other demands on the fiscus. This is qualitatively different from the more straightforward evaluation of that policy proposal on its own.

This is a crucial benefit of collective decision-making, and one that simply could not be achieved in any other way. Other processes could lead to decisions that are even further removed from the optimal. The collectiveness of the process should therefore be embraced.

There are important implications for collective decision-making of this kind. The first is that it is possible for a Minister of Finance to 'hide' behind the collective when criticisms are levelled at the budget by those who supported policy proposals that did not attract the funding they felt it deserved. While this would not be an intellectual nor political 'cop out', a Minister of Finance should not to rely on the collective nature of the process, but must provide leadership. It is only really the Minister of Finance who has both the time and organisational resources to examine properly all of the issues raised by spending proposals made by all departments across government.

A third imperative is the recognition that no one player, no matter how important his or her leadership role, is ever going to prevail in every debate. That is the 'price' paid for leading a collective process. Given that no one person or institution can hold a monopoly on wisdom, it is not always a bad thing. In the context of scarce resources, however, it is important that Minister of Finance win more debates than he or she loses, as other ministers will not often argue that *less* should be allocated to spending programmes which the Minister of Finance wants to preserve.

Ensuring the integrity of the budget process

Although Cabinet is generally very cautious about undermining the integrity of the budget process, it is occasionally asked to endorse a proposal in terms implying that Treasury would be directed to allocate funds to it.

This undermines the potential of the budget process to consider the relative pros and cons of all spending proposals simultaneously, and is almost always a bad idea. If the proposal is of such merit, it should succeed easily in the budget process. There are also other manifestations of this kind of problem. One is when other forums – in particular the courts – take decisions that imply that funds must be directed in specific ways. Another is when proposals are made to ring-fence certain revenues for specific purposes.

This kind of decision-making defeats the purpose of establishing and running a comprehensive and inclusive budget process. If certain proposals are parachuted into the final decisions without going through the same process, it is harder to be sure that the allocation of resources will be as near to optimal as possible.

A second problem arising if practices of this sort multiply, is that it would become harder to ensure affordable and sustainable expenditure patterns, because the aggregate cost of all individual decisions cannot be known in advance and do not consider the budgetary implications of other proposals.

Finally, a third negative consequence of undermining the integrity of the budget process is that it could result in departments focusing on obtaining a-procedural considerations for their proposals, instead of preparing the best possible case for the proposal. Thus, instead of seeking to persuade his or her colleagues to support an increase of spending on a particular policy or service, a minister might spend his or her time lobbying the Minister of Finance or the President to approve something outside of the normal budget process. They could also encourage non-governmental agencies to take the Minister of Finance to court and obtain a decision forcing government to redirect some of its spending.

However, it is not always possible to maintain the absolute integrity of the process. Ministers do sometimes persuade Cabinet or the President to direct funds to projects, and courts do sometimes make decisions requiring government to allocate resources in ways it may not have chosen on its own. As spending decisions are not always premised on rigorous analysis of the issues, the result could be a net improvement in the effectiveness of government spending. Still, as a matter of principle, the Minister of Finance needs to protect that integrity of the budget process and ensure that any departures are rare exceptions and are understood to be such.

Managing demands on the fiscus through rigorous technical evaluations

Apart from comparing the pros and cons of different spending priorities, it is also necessary that proposals in the budget process pass a set of internal 'plausibility' tests. These can be reduced to a few questions:

- How much would such a programme cost and what benefits would it produce?
- Would the proposal be affordable and would spending on it be sustainable?
- Are there alternative ways of producing the same kind of benefits at lower cost?
- Are their reasons why such a programme would not be feasible from an operational point of view?
- Would its implementation affect the budgets of other departments or the performance of the economy as a whole?
- Could the proposal be funded out of existing allocations or through the reprioritisation of the existing budget?
- Is the entity making the proposal likely to have the capacity to execute it?

These are relatively clear questions, but answering them rigorously requires analysis of a range of economic, financial, legal and political factors, and requires that all policy and spending proposals are carefully considered. This must first be done by those who make the proposal. An analysis should also be conducted by a central, objective body using a common set of standards.

One of the purposes of the technical analyses conducted – on new or existing spending proposals – is to assure government that the benefits of the programme in question justify its costs. This is no more than a minimum standard, as its benefits may still be less desirable than the benefits derived from other programmes, or its costs may exceed the limits of affordability. These latter issues can only be tested during the course of the budget process.

The Minister of Finance should use Cabinet discussions of policy proposals to ensure that only those policies that are likely to be workable and affordable, and whose benefits exceed their costs, are considered during the budget. This means he or she may need to persuade Cabinet to refuse to endorse some proposals that come before it.

This is one of the most controversial roles of the Minister of Finance. When the Minister chooses to do this, it is incumbent on him or her to be sure that all the appropriate technical work has been done properly. Nevertheless, it is a role that the Minister must be prepared to play if he or she is to manage government spending effectively.

The annual budget cycle

The budget cycle combines analysis and deliberation on departments' budget submissions with continuous engagement between those guiding the process and the highest levels of government.

The most important output is the Division of Revenue Bill, providing the legal authority for government agencies to incur expenses, and taken to Parliament two months before the start of each financial year. It sets out the division of revenue between debt service costs and other non-discretionary spending, and money to be voted for expenditure on public goods and services. It also divides revenue between national and provincial spheres of government, and, within the national sphere, divides the revenues further between departments. Within departments, it divides funds between the programmes on each department's Vote and also between the principal economic categories of expenditure, such as current and capital costs.
Accompanying the Division of Revenue Bill to Parliament is a variety of documents that help explain the budget and provide operational and policy information about government's spending plans. *The Budget Review* sets out government's view on trends

and prospects in the national economy, decisions it has made about the fiscal policy stance, the broad allocation of expenditure between spending priorities, and any changes to key policies. *The Estimates of National Expenditure* sets details the operational and spending plans of each government department, as well as the likely growth of departments' budgets over the two financial years following the year for which the present budget has been prepared.

The process leading up to the presentation of the budget and accompanying documentation to Parliament includes:

- In May/June, the National Treasury sends each spending agency a pack setting out the critical steps in the budget process and providing guidelines on the format and content for their budget submissions.
- At the July Cabinet lekgotla, the Minister of Finance presents the latest official estimates of the principal economic variables and the likely value of revenues that will be collected, which will govern critical policy debates about the fiscal stance. Discussion at the lekgotla is dominated by debate about the strategic priorities for the year. The resultant Medium Term Strategic Framework is central to shaping the submissions that departments will make to the budget process, and the analysis of the extent to which spending proposals achieve those strategic priorities.
- Also in the middle of the year, the Minister of Finance chairs the Budget Council lekgotla, where discussion revolves around spending trends and pressures being experienced by provincial and local governments, as well as their budgetary needs for the subsequent year. Later in the year, further discussion with the provinces occurs through a subsequent Budget Council, as well as through engagements between National Treasury officials and each provincial treasury.
- In August/September, the National Treasury receives the budget submissions from across government and begins to analyse each proposal, looking at the extent to which it is internally consistent and coherent, and begins to develop a view on the extent to which it is affordable and meets the strategic priorities of government.
- At the same time, the Nation Treasury revises and updates its forecasts for the national economy for the next three financial years and begins to prepare the *Medium Term Budget Policy Statement.* This sets out details about these forecasts, government's macroeconomic policy decisions, and the broad outlines of likely

allocations, and is presented to Parliament in October after being approved by MinComBud and Cabinet.

- During September/October, the Medium Term Expenditure Committee hosts a series of meetings with each department to review its budget submissions, clarify departments' thinking and test assumptions reflected in their submissions. This is preceded by close engagement between officials from each department and from National Treasury's Public Finance division, during which clarification and agreement on issues will have already been sought.
- Between October and November, MTEC makes recommendations to MinComBud and Cabinet. Letters of allocation based on this are sent out to individual departments in November so departments may begin making spending commitments.
- Any final changes to economic assumptions and forecasts are concluded in December and January. If these require changes to the figures reflected in departments' letters of allocation, updates are sent out in late January.
- In January and February, budget documentation is finalised and is then presented to Parliament.
- Although the bulk of the work on the budget is concluded before the start of the financial year, National Treasury and the Minister of Finance monitor spending patterns over the course of the year to identify potential under- or over-spending. Where these emerge, they interact with the department or province concerned. In addition, because the forecasts and estimates are seldom completely accurate, provision is made for the passing of an Adjustments Budget in November to allocate funds to departments whose budgets were negatively affected by any gaps between forecasted and actual variables.

Conclusion: budgeting and value for money

Achieving the four key objectives of a good budget requires an intensive, year-round process that sets the rhythm for much of the work of the National Treasury and the Minister of Finance. The budget is the ultimate expression of government's priorities in the short- and medium-term, and is the core process around which strategic policy decisions are made. However, the role of the process (and of the Minister) in ensuring value-for-money has not been adequately explored. This is the subject of the final substantive section of this report.

SEVEN

THE MINISTER OF FINANCE AND THE IMPROVEMENT OF THE EFFICIENCY AND EFFECTIVENESS OF THE PUBLIC SERVICE

Introduction

The list of goods and services that a government committed to economic and human development needs to provide is breathtaking: functioning schools that deliver quality education; accessible clinics and hospitals stocked with the right medicines and adequately staffed; well-managed police stations, courts and prisons; bureaucracies that treat their users well, maintain high standards of integrity and produce ID books and housing subsidies and social grants to those who qualify for them.

One of the preconditions for achieving each of these goals is that public money is managed effectively. This is something that each and every manager in the civil service is responsible for ensuring, with Accounting Officers potentially being subject to severe sanctions for failures. While responsibility for effective management of public monies is widely shared across the public service, the PFMA also provides that the National Treasury must 'promote and enforce' the transparent and effective management of expenditure by departments, public entities and constitutional institutions. The Minister of Finance thus plays a role in ensuring that all public institutions use public money well. This is not easily achieved, and while progress has been made in many areas, there remain critical shortcomings in the effectiveness and efficiency with which state resources are used.

Value for money (VFM) and the Minister of Finance

There is more to governing well than the relentless pursuit of 'value for money' or VFM. However, it is difficult to govern well without pursuing and to some extent achieving relatively high levels of VFM. Lower levels of operational efficiency and effectiveness mean smaller quantums of goods and service provided by the state, with smaller impacts on the country's socio-economic indicators.

The Minister of Finance has a particular responsibility for achieving VFM arising from four sources. The first is the collective responsibility the Minister of Finance shares with all Cabinet ministers for the performance for government and for the optimal delivery of services. The second arises from the Minister's role in the custodianship of public funds, ensuring that these scarce funds, which might have been deployed elsewhere, are not wasted by those to whom it has been allocated.

The third arises from the Minister's role in raising revenue from tax-payers, and the implicit promise that he or she will not waste these funds and that taxpayers pay as little tax as possible for the quantum of services provided by government.

The fourth and final source of the Minister's responsibility for pursuing VFM is somewhat more pragmatic: because the Minister of Finance is politically responsible for the process of crafting of a budget and the management of public finances, which are also some of the principal processes through which a VFM agenda can be driven. There are some aspects of the VFM agenda that simply cannot be achieved except by integrating them into the budget process and the management of public finances.

The management of public finances and the pursuit of VFM

Framed in general terms, the approach that government has taken to reforming public sector financial management over the past fifteen years has been premised on three core ideas:

- That senior management in spending departments needed to be granted more control over their own budgets than previously, to manage their institutions effectively;
- That the senior management of government departments would need to be given some degree of certainty about the allocations they might expect to receive in the future, so that they could make plans around those budgets and develop programmes and projects that will bear fruit in the medium-term;
- That managers in public institutions can and should be held to account for both the financial and operational management of their departments.

This was a radical departure to the philosophy that underpinned government's financial management prior to 1994. At that time, spending departments had almost no authority over their own budgets, and had to apply to the Department of State Expenditure to sign off on all but the most routine transactions. The Department State Expenditure also processed most contracts for all government departments.

Today, apart from managing a number of transversal supply contracts, the National Treasury has almost no direct say over how money is spent in other government departments, and there are now about seventy tender boards dispersed across the national and provincial spheres of government.

The decentralisation of procurement is one aspect of a much wider programme driven by government over the past fifteen years and aimed at professionalising the management of government departments. This has entailed giving departments more responsibility and authority, while at the same time creating a framework for holding them more accountable for delivery.

These reforms have obvious benefits where management is professional, competent and committed, but there is an important downside: in the past, any wasteful expenditure by a department could be directly monitored and managed by the Department of State Expenditure, but this monitoring is now much harder to do. The National Treasury has very few powers to deal with this kind of wasteful spending, except by taking it into account when departments request additional funds in subsequent budgets. Rapidly growing departmental budgets over the past decade may have also meant that relatively autonomous managers have been able to divert funds into areas unrelated to the optimal delivery of services. Because the National Treasury has little authority over departmental budgets, changing this requires more work by more role-players than would have been the case in the past.

The reform of financial management is also aimed at strengthening the capacity of political office bearers and members of the public to assess departments' delivery on their mandates, and to hold those who do not deliver to account. To do this however, it was necessary to reform the way in which budgets were prepared. More emphasis is now placed on departments' programmes and their specific objectives. This is complemented by performance indicators which are used to assess to what extent programmes have achieved their objectives.

It is important to emphasise that it is not the National Treasury that sets entities' performance objectives, or to whom they are accountable. These functions are vested in the relevant executive authorities and legislatures. However, the presentation of the data alongside the budgets links the idea that public funds are allocated in order to achieve specific public objectives, and that the extent to which those objectives are achieved is a measure for holding officials to account. This is one of the most important and sustainable ways in which the VFM agenda can be pushed: by increasing transparency and allowing processes of accountability to take their course.

Departmental management has also been empowered by the introduction of the Medium Term Expenditure Framework in the late 1990s, providing increased certainty about future budgets. Prior to this, departments were told only of their allocations for a single year and were often unable to commit themselves to programmes and projects requiring spending over a number of years. The three year budget cycle expands departments' planning horizons by providing indicative budgets for the two years that follow the current financial year. They are then better able to tailor their plans and activities to likely budgets.

Financial management reform has also sought to improve the quality of financial management itself. Reforms aim to raise the quality of accounting practices in government, for example requiring public institutions to develop risk management plans and establish internal audit committees.

At a more subtle level, reform measures also saw the development of new accounting standards, based on a system closer to the norms of accrual accounting than the previous cash-based accounting systems. This has been complemented by more sophisticated reporting frameworks, and building a variety of more sophisticated financial management systems to support this.

The reforms emerged because the accounting systems in place in the mid-1990s were unable to deal with the demands on the system and were not entirely transparent. The net result of these changes is the increase of National Treasury's budget documentation, as the range and quality of data and analysis has improved. Thus, before 1998 there was no *Medium-Term Budget Policy Statement* because there was no three-year planning cycle. Nor did the 900-page long *Estimates of National Expenditure* exist until 1999, with the *Budget Review* instead containing a single paragraph on each department. In addition, beginning in 2001, Treasury has produced documents reporting on spending and performance in provinces and municipalities– the *Intergovernmental Fiscal Review* and the *Local Government Budget and Expenditure Review*.

The production of all this documentation is aimed at making government more transparent, enabling policy-makers to assess departments' performance and hold poor performers to account. South Africa's budget was recently rated the second most transparent in the world as a result of the comprehensive data we produce.

How successful has financial management reform been?

Public financial management reform has not been an immediate and unmitigated success. The most important deficiency has been the large number of institutions that are ill-equipped to properly handle their increased authority over funds. Spending outcomes have not always matched budgets. Some departments repeatedly over- or under-spend their budgets, as the decentralisation of financial management is not always matched by the requisite building of internal controls. This is an on-going problem, though less frequent that a decade ago. There are many departments in which oversight and control over public funds has been inadequate. There are also issues relating to the *quality* of compliance, even where departments appear to comply with PFMA requirements. Given these challenges, it is important to at least consider the possibility of taking back some of the powers and functions that have passed from centralised agencies in the past decade.

A second problem with the implementation of financial management reform is the approach of departments to performance management – in particular, the extent to which they have defined comprehensive performance indicators for achieving the goals of improved planning, enhanced oversight, and more efficient and effective delivery. In principle, each programme in every department should have quantifiable and measurable objectives, and must report on the extent to which these have been achieved. However for a number of reasons, defining a set of performance measures for large areas of government's work is difficult. Even in cases where systems might be in place to capture data for the measurable objectives, it is also difficult to be sure that the specification of the objective is appropriate. There are also difficulties where appropriate data are not captured at all or where departmental management is not entirely committed to gathering the data which might show up weaknesses in delivery.

A different challenge is the development of appropriate accounting standards and the move away from a pure cash-based system of accounting to one incorporating aspects of accrual accounting, so government can assess and record the full costs of providing services including the non-cash costs of wear-and-tear and depreciation. This makes it difficult for departments to conduct their business in a manner resulting in the long-term erosion of their capital assets, compels them to provide for the maintenance and replacement of those assets, and would help ensure more sustainable delivery of services.

However, a full accrual system has not been implemented yet and probably never will be. Reasons include technical problems of valuing of assets for which there exists no market, such as physical infrastructure, and inadequate skills and systems in the financial management components of departments across government, since accrual-based accounting is more complex than the present system. A more 'conceptual' difficulty is that the macroeconomic, demand-management consequences of government's revenue-collection and spending are driven by the flow of cash into and out of government coffers; these are relatively unaffected by the non-cash costs of depreciation and so on. The national accounts will thus always be prepared on a cash basis, here and in countries all over the world.

The effect of these problems is that a modified cash-based system, with its limitations, is the best that can be achieved, even though it could be argued that public institutions would better manage the assets under their care if government used an accrual-based system of accounting, and that political authorities would find it easier to oversee this management if accounts were prepared in this manner.

A number of more or less resolvable technical challenges must therefore be addressed to significantly improve oversight and accountability for using public funds and assets. There is also a significant political challenge: the building of a more rigorous culture of oversight and accountability.

The politics of oversight

The extent to which South Africa's legislatures have overseen the work of government departments has not been sufficiently rigorous.

It could be argued that the consequences of this weakness are not as severe as they might be because of all the other accountability mechanisms built into our government system. Cabinet ministers, for example, are concerned with the quality of work done by their departments and are often among their department's severest critics. Inter-departmental and inter-ministerial exchanges are also robust, as are some of the exchanges between ministers and representatives of the ruling party about the quality of delivery.

However, an accountability deficit will exist no matter how self-critical departments and their ministers are, when legislatures do not play the role envisaged for them in the division of power between legislature, executive and judiciary. This deficit can't be reliably filled by institutions in the executive such the National Treasury or office-bearers like the Minister of Finance, as they are not legally empowered to hold their peers to account. It would also be bound to spark inter-departmental tensions which might undermine the ability of government to deliver on its mandate.

Efforts to increase transparency of public finances and report on performance are thus not always matched by a similar commitment to use that data to hold departments to account and improve performance. In the absence of the resolution of these problems, which cannot be fixed by the reform of financial management, the pursuit of the VFM agenda is bound to suffer.

Treasury can still however use other tools available to improve VFM. One of those is the budget process.

The VFM agenda and the budget

When the Minister of Finance engages with the VFM agenda, it is generally through the budget process.

While VFM issues are not the only ones determining budget decisions, as mentioned above, these issues are still relevant to the question of what should attract funding from government. The National Treasury, working with the spending departments, tries to understand the impact and challenges of spending in each department, to raise the overall effectiveness of public spending

Treasury first paid attention to this with a series of expenditure reviews conducted in 1998 to examine how spending levels and public sector output were related. These reviews were to help government assess what was worth spending money on, by examining all spending in each department and crafting a comprehensive review of that.

This kind of review activity continues to be important, but Treasury's engagement with departments on their spending plans is more commonly focused on new plans and programmes needing funding during the course of the budget process, and assisting with financial management decisions that still require Treasury approval. Most effort goes into the deliberations of the Medium-Term Expenditure Committee (MTEC) in September and October every year, although there is some on-going interaction between the Treasury and the various departments.

It has been argued that it would be far better if the Treasury maintained more consistent engagement with spending departments, as this would improve the quality of budgetary decisions by helping Treasury better understand departments' needs and unlocking efficiencies. For this reason, a process is now in place to conduct another round of comprehensive expenditure reviews, to identify where, and why, spending is not producing the social returns that it should be.

Unfortunately, there are a number of areas of government spending where this seems to be the case. For example, our spending levels on education and health match and exceed those of other countries at a similar level of development, but our outcomes are far worse.

In the medium- and long-terms, it is important that Treasury and government understand why these gaps between levels of spending and levels of impact seem so wide, and why the rapid increases in budgets have not been matched by equal increases in government's social impact. Government thus needs a more coherent and systematic approach to the review and development of its policies, alongside the budget process. Because it would intrude on the powers and mandate of departments and their executive authorities, this is not something that can be instituted alone however, although it would be of great benefit to the Treasury and to Cabinet during the budget process.

Conclusion: Good governance and the Minister of Finance's functions

The Minister of Finance has a role to play in pursuing the VFM agenda in agencies other than those for which he or she is responsible. However, it was noted that the VFM agenda is a component of a wider good governance agenda, and the Minister must also comply with the requirements of all public officials when making policy and operational decisions.

For the most part, the Minister of Finance is seldom put in a position in which it is difficult to do his or her duty, though there are circumstances where conflicts of interest might arise, or where the Minister might need to take special care to avoid creating the perception of inappropriate conduct.

A source of potential difficulty relates to investigations conducted by the FIC, the FSB or SARS into the conduct of 'politically exposed persons' – high profile individuals who may have access to the Minister. While these investigations might be concluded without the Minister becoming aware of them, this is not always possible. The subject of the investigation might approach the Minister, or it might not be desirable for the Minister to be uninformed about these investigations.

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In these sorts of cases, the rule must be to allow the investigations to run their course and for prosecutions, if indicated, to follow. Interventions to instigate or halt investigations are undesirable and would have severe implications for the Minister's reputation.

A Minister of Finance relies a great deal on his or her reputation for competence and integrity, in dealings with officials in government and in engagement in international processes. The Minister's reputation for probity thus is a vital asset both for him or herself and for the country as a whole and must be carefully protected.

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CONCLUSION

This report has covered a lot of ground. It has described the role that the Minister of Finance plays in government, explaining responsibilities for the National Treasury, StatsSA, SARS, the FIC and a variety of other public entities, and offering thoughts on the key policy challenges and dilemmas that a Minister of Finance is likely to confront.

Substantial as it is, it is impossible for a report of this kind to comprehensively cover all the issues confronting the Minister of Finance. The report may inevitably have passed over some issues or dealt too sketchily with others that might have warranted fuller treatment.

It is also probable that a new Minister of Finance will soon have to confront issues which were not considered likely at the time of writing. Given the current state of the global economy and the uncertainties about its trajectory, it is almost inevitable that issues will arise from this quarter that have not arisen in the past fifteen years. But something serious and unexpected might also arise in the Minister of Finance's domestic domain, such as the collapse of a major corporation.

It is in the details of these events that the challenges lie. In responding to whatever it is that lies in wait, all a Minister can do is rely on his or her own experience and on that of the officials in the institutions tasked with managing the national economy. They are experienced and committed professionals, and, having experienced the changes implemented over the past decade, are well-equipped to deal with further crises.

It is nonetheless hoped this report does turn out to be of some assistance. It is worth reiterating the purpose of this report: not to put the Minister in a position to address every possible policy question, but to offer insight into the challenges he or she will confront.

ANNEXURES

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INTRODUCTION

In the course of preparing this report, divisions in the National Treasury and the senior management of StatsSA and SARS prepared reports that were intended to supplement the basic narrative report. Initially, the idea was for these reports to conform to a standard template, but, in discussion with the relevant role-players in the National Treasury and the other institutions, it was felt that, while the broad content was appropriate, some latitude was needed to allow managers to produce reports that would provide the information they believed an incoming Minister would need. Thus, while the broad outlines of the original framework were agreed, it was also agreed that the reports could depart from that format. The result is that the following annexures are not all consistent with each other, with some divisions in the National Treasury, for instance, providing division-wide reports, while others produced reports for each chief directorate. In addition, although the request was for short reports (five to seven pages), some are substantially longer than that.

Because obtaining uniformity is not practical, and because the overall idea was to provide senior managers with the opportunity to set out their own accounts of the key issues in their domains, editing has consisted of no more than basic formatting. For convenience sake, however, it is worth reproducing the original 'template' that was sent out with the request for these reports. This was:

1. Introduction

1.1. Statement of principal purposes of the division/department/entity

1.2. Statement of its present structure down to directorate level (Chief directorate, in the case of SARS and StatsSA) and indicating staffing levels excluding support staff (present and vacancies)

1.3. Description of the principal 'products' of the division/department/emtity and the processes in which it plays a role divided between those that are,

1.3.1. Routine

1.3.2. Exceptional

2. Outline of policy questions presently on the agenda

2.1. What are the most important items on the agenda at the moment

2.2. Where are the likely controversies/disputes with other departments

2.3. Issues which are on the horizon and which may need more attention soon

3. Current policy processes

3.1. Narrative account of processes linked to the policy questions identified above

3.2. Diary for next six months

3.2.1. Deadlines for key products

3.2.2. Formal engagement with other departments/spheres of government already scheduled

3.2.3. Engagements at international level

4. Vision statement relating to where the division should be in three years time

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Divisions of the National Treasury

ASSET AND LIABILITY MANAGEMENT DIVISION

1. Introduction

1.1 Statement of principal purpose

The Asset and Liability Management (ALM) Division manages government's financial assets and liabilities. The Division aims to ensure prudent cash and financial management, financial oversight of state-owned entities (SOEs) and optimal management of the government's domestic and foreign debt portfolios.

1.2 Statements of present structure

Currently 84 positions or 71 per cent of the approved establishment of 119 are filled. The number of vacant positions amounts to 35 or 29 per cent. The major portion of the vacant positions relates to the recently extended Asset Management establishment.

Establishment of ALM Division to Directorate level as at 27 February 2009

Subprogramme	Approved	Filled	Vacant
Office of DDG	**5**	**4**	**1**
Financial Operations	**19**	**16**	**3**
Chief Director	3	3	-
Accounting and Information	7	5	2
Cash Management	6	6	-
Systems Integration	3	2	1
Liability management	**30**	**23**	**7**
Chief Director	3	3	-
Domestic Debt	6	4	2
Debt Operations	18	15	3
Foreign Debt	3	1	2
Strategy and Risk Management	**16**	**12**	**4**
Chief Director	2	2	-
Country Risk	5	3	2
Credit Risk	3	3	-
Market Risk	6	4	2
Governance and financial analysis	**29**	**21**	**8**
Chief Director	3	2	1
Corporate Governance	5	4	1
Treasury Operations	4	4	-
Investment Analysis	8	6	2
Development Finance Institutions	5	5	-
Provincial Development Finance	4	-	4

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Sectoral Oversight	**20**	**8**	**12**
Chief Director	2	2	-
Energy & Telecommunications	5	3	2
Transport & Defence	4	3	1
Water Sector	5	-	5
General Sector	4	-	4
Total	**119**	**84**	**35**

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Principal products and processes

Chief Directorate	Products
Financial Operations	Routine: – Cash management to ensure that government has sufficient cash – Investment of government's surplus cash – Compilation of financial statements and market reports – Implementation of treasury management systems Exceptional: None
Liability Management	Routine: – Record and service government's debt portfolio – Apply sound domestic and foreign debt management practices – Contribute to the development of financial markets Exceptional: – Financing of government's borrowing requirement
Strategy and Risk Management	Routine: – Minimise and mitigate risks emanating from government debt portfolio and from investment of surplus cash – Manage sovereign credit ratings – Manage contingent liabilities Exceptional: – Sovereign rating reviews by the major rating agencies
Governance and Financial Analysis	Routine: – Report on analysis of corporate plans and Annual Financial Statements of SOEs – On site reviews of treasury management operations and applications to borrow money, for guarantees and to enter into future financial commitments. – Board appointments, analysis of board remuneration, PFMA compliance, recording of guarantee fees and dividends received Exceptional: – Development of DFI policy – Advising on an appropriate shareholder management model for government – Crafting of best practice standards and assisting SOEs to establish treasury units where required – Implementation of capital structures and dividend policies for SOEs
Sectoral Oversight	Routine: – Ongoing oversight over Schedule 2 and 3B entities Exceptional: – Participate in major interventions and restructuring of SOEs

2. Outline of Policy questions

2.1 Liability Management

In line with the changed economic environment and the counter cyclical fiscal stance, government's borrowing requirement grows from a net cash inflow to a net borrowing of R239 billion over the next three years. The gross borrowing requirement of R109,2 billion for 2009/10 will be financed in large part in the domestic bond and treasury bill markets, along with borrowing in the international markets.

The high borrowing requirement has raised the question whether the domestic market will be able to absorb the higher debt issuance programme and at what cost. Sovereign credit spreads have also widen on the back of the global economic crisis making it more expensive for emerging economies to issue in the international capital markets. It is envisaged that US$1 billion will be issued in the international capital markets during the first quarter of 2009/10 depending on market conditions.

2.2 Strategy and Risk Management

Since the last visits by the credit rating agencies, the global credit landscape has changed dramatically. The current global financial turmoil and economic downturn have resulted in rating revisions world wide. With the exception of Moody's, all the other rating agencies have revised South Africa's sovereign rating outlook down from stable to negative. All efforts should be made to ensure that South Africa's current ratings are maintained during this present adverse global financial market conditions.

The Standard & Poors and Rating and Investment Information rating agencies visited South Africa in February and March 2009 respectively, to review their current ratings. The outcome of their rating reviews is expected by June 2009. The remaining rating agencies, Moody's Investor Services and Fitch Ratings, are expected to do their rating reviews during May/June 2009.

To improve coordination between the National Treasury and SARB, bilateral meetings are held between the Minister of Finance and the Governor of the SARB. Issues to be discussed at the bilaterals are informed by the Banking and Financial Markets, Macroeconomic Policy and Financial and Regulatory Issues Standing Committees. The Standing Committee on Banking and Financial Markets for which the ALM Division is responsible has met on 16 April 2009 and the next meeting is scheduled for 1 June 2009. A date for the next bilateral has not yet been set.

2.3 Financial Operations

The National Treasury is responsible for maintaining adequate liquidity in the National Revenue Fund. During the first half of 2009/10, government's cash requirements are higher mainly due to foreign and domestic loan redemptions of R16.5 billion. It is expected that cash balances will decrease from R35.2 billion in April 2009 to a low of R3.5 billion in August 2009.

Since 2005 the National Treasury helped the SARB to sterilise excess cash in the money market resulting from the purchase of US$10.2 billion of foreign exchange reserves. This was done by drawing R66.3 billion from government deposits with commercial banks and holding these balances in an interest bearing account with the SARB. These sterilisation deposits are not readily available to finance government's expenditure as it could have far reaching implications on the monetary management operations of the SARB and its profitability.

The Systems Integration unit of the ALM Division is implementing an integrated Back Office System which will replace the Government Bond System and the Retail Bond System. These systems are used to manage and service government's debt. The new system uses modern technology which facilitates straight through processing and centralised data thus eliminating many manual processes and the duplication of data which is currently problematic. Implementation will be completed by March 2010.

2.4 Governance and Financial Analysis

Development Finance Institutions (DFIs) – Government completed its review of the DFIs in 2008. The review recommended the restructuring of some DFIs to improve their effectiveness, as well as enhanced government coordination of their mandates and deliverables. Cabinet resolved that the Minister of Finance convene a Committee of Ministers to review the recommendations regarding the rationalization of the DFIs. The first meeting of the Inter-ministerial Committee was on 19 February 2009 and it was agreed to hold a follow-up meeting.

Land Bank – The Land Bank has submitted a turnaround strategy to the National Treasury two months before the agreed deadline. The strategy focuses on three main areas: cleaning up the business to improve governance and internal controls, stabilising the Bank and developing a sustainable long-term operating model.

Government expects that the Land Bank will play a crucial role in supporting land reform and rural development which are key pillars in Government's fight against poverty. In this light, National Treasury is currently reviewing the Land Bank's capital structure. It is anticipated that the company will require a capital injection of between R2 billion to R3 billion. Although, National Treasury was previously reluctant to consider injecting more capital into the Bank, the progress that has been made in stabilising the Bank and the credible turnaround plan that has been developed justifies consideration of further capital.

Development bank of South Africa (DBSA) - The main areas of focus are financing infrastructure development in municipalities while at the same time crowding in private sector investment. The purpose of injecting capital into the DBSA would be to enable the Bank to expand these activities in line with government's objectives to improve service delivery and local economic development.

The DBSA has submitted a business plan outlining how any funds injected into the company would be employed by the company to better deliver on their mandate. The Bank has proposed increasing its callable capital (by R15.2 billion in addition to the existing R4.8 billion to a total of R20 billion). The DBSA projects that the increase in the callable capital would enable it to attract new funds totalling R53.2 billion from market sources, bringing the total lending capacity to R108 billion. ALM is currently engaged with the DBSA to set conditions/targets regarding the utilization and deployment of new capacity.

Capital structure and dividend policy - The implementation of the capital structure and dividend policy for SOEs is of utmost importance. The policy seeks to identify and maintain the required balance between government's return and SOE financial sustainability. Controversies/disputes are likely to arise where departments and SOEs may challenge and/or reject the recommendations based on project findings from the capital structure and dividend policy project. DFIs have already sighted a discomfort with them having to pay a dividend while they assume riskier and developmental work for government.

Shareholder management models for government - Advise on the development of an appropriate shareholder management model for government regarding SOEs through engagement of the DPE and the Presidency. Cabinet agreed that the DPEs Shareholder Management Bill will be withdrawn and that the recommendations contained in the PFMA Amendment Bill relating to SOEs be expunged.

2.5 *Sectoral Oversight*

Eskom – A subordinated loan amounting to R60 billion in support of Eskom's capital expansion programme has been approved. The Eskom Subordinated Loan Special Appropriation Act provides for a multi-year appropriation as follows: R10 billion in 2008/09, R30 billion in 2009/10 and R20 billion in 2010/11.

Government has also approved guarantees totaling R175.97 billion over 5 years, in support of Eskom's capital expansion programme. Included in this amount is the existing debt issued under Eskom's Domestic Medium Term Note (DMTN) programme: the ES26 and the ES33 bonds and the two Floating Rate Notes (maturing 2026 and 2033). The remainder of the guarantees will be to support the issuance of new debt both locally and internationally. The legal agreements are being drafted.

Eskom is currently required to submit their second Multi-year Price Determination (MYPD2) application to the National Energy Regulator (NERSA). The latest indications are that Eskom will request nominal tariff increases of 34% (2009/10). This is well below the initial indications of what was required in order to finance their proposed capital expenditure programme. The submission of the application has been delayed due to the Department of Public Enterprises first wishing to seek Cabinet approval and also due to the introduction of the Electricity Pricing Policy by the Department of Minerals and Energy (DME) and the revision of the Multi-Year Price Determination (MYPD) rules by NERSA. NERSA is expected to take up to four months to reach their decision once Eskom has submitted.

In terms of Section 42(5) of the Municipal Finance Management Act (MFMA), any amendments to the electricity price have to be tabled in Parliament by 15 March in order to take effect on 1 July in that year. As a result of the delay in the submission of the application and consequently also the determination of tariff, Eskom will not be in a position to table the new electricity tariff by 15 March 2009 and have requested an exemption. Last year an exemption was granted to Eskom, which created difficulties for municipalities and the fiscus as municipalities had to adjust their budgets only two months into the financial year. This year, revisions to the legislation mean that municipalities will not be able to adjust their budgets. However, if the tariff increase is not implemented this year, Eskom will experience a liquidity crisis. As a result, a circular was issued by National Treasury instructing municipalities to base their budgets on a nominal electricity price increase of 34%.

South African Airways - In May 2007, SAA embarked on an eighteen-month restructuring programme aimed at returning the airline to profitability. In terms of the restructuring targets, SAA has performed well. As at the end of December 2008, SAA was 35% ahead of the targeted savings. However, the majority of these savings have been achieved through cost cutting rather than through revenue enhancement or the planned restructuring of the business.

SAA is currently facing a number of "going concern" issues for the financial year ended 31 March 2009, which could result in the company having a qualified audit and which would trigger default clauses on the company's various financing arrangements. The main factors contributing toward the "going concern" issues are:

- In order to renew their operating license, SAA requires guarantees to cover the Air Traffic Liability (ATL) arising from unflown tickets (between R1.6 billion and R2.9 billion). The Air Traffic Licensing Authority has extended SAA's license for four months up until 31 July 2009 in order to provide time to resolve this issue;
- Pre-delivery and delivery payments (about R3.4 billion up to March 2010) on the Airbus contract or the provision for impairments (R3.4 billion) due to cancellation of the contract; and
- Settlement costs related to SAA's participation in an international price setting cartel (likely to be an amount between R500 million and R2.5 billion).

There are a number of other factors which will erode SAA's equity. The erosion of SAA's equity may trigger a number of SAA's loan covenants and result in creditors requiring immediate repayment. The most important issues in this regard are the following:

- Recognition of the Voyager liability on SAA's balance sheet due to the change to International Financial Reporting Standards (IFRIC) 13 (about R1.2 billion); and
- Anticipated losses for both 2008/09 (around R850 million) and 2009/10 (could be as much as R1.7 billion).

Denel - As agreed by Cabinet, the Ministers of Defence, Trade and Industry, Public Enterprises, Science and Technology and Finance still need to meet to look at a viable financing model for Denel. Substantial work has taken place in the last year to investigate various alternatives for restructuring Denel to ensure that the company ceases to be a drain on the fiscus. The Department of Defence still needs to indicate to Cabinet its strategic capabilities and requirements, as well as the spending from within its baseline budget that will be committed to sourcing these requirements from Denel. These two critical prerequisites for consideration of funding for Denel have not been met, therefore no funding could be recommended for Denel.

That said, Denel faces a "going concern" issue for the year ended 31 March 2009. The company will be illiquid by May 2009 and technically insolvent by October 2009; due to insufficient capital to fund interest payments (R147 million on two guarantees and R400 million for funding day-to-day activities). One of the existing guarantees for R420 million which was to have expired on 31 March 2009 was extended to 31 March 2010. This was done, in spite of the fact that a number of the conditions attached to the original guarantees have not been met, most notably the condition for the Ministers to reach agreement on the "end state" for Denel. National Treasury has sent a letter to DPE requiring that they comply with Cabinet's requirements for the financing model for Denel to be finalised before 31 May 2009 when a second guarantee for R880 million will expire.

An indemnity of R1.6 billion was provided to Denel Saab Aerostructures (DSA) by the Minister of Finance in March 2007 in respect of the A400M contract. The Minister of Public Enterprises has indicated that the indemnity has been reduced, but as yet National

Treasury has not received firm and signed agreement between Airbus and DSA regarding this. Thus far, R481 million has been paid out in claims against this indemnity.

PBMR – In 2007/08 National Treasury had Dresdner Kleinwort conduct a financial review of the PBMR. A Cabinet Memorandum has been prepared in this regard. The Cabinet Memorandum recommended that a task team be established comprising of National Treasury and the Departments of Minerals and Energy, Public Enterprises and Science and Technology to investigate options for terminating, restructuring or continuing with the PBMR project. The Cabinet Memorandum still needs to be taken by the Minister to Cabinet.

Of the R6 billion allocated to the PBMR project in the 2007 Budget, only R1.7 billion remains, which will be paid to PBMR over the course of 2009/10. As a result PBMR is likely to face "going concern" issues. They have suggested that they will require a guarantee from Government. National Treasury has requested PBMR to submit a formal request in this regard which will be reviewed by the Guarantee Certification Committee (GCC). Without a decision from Cabinet regarding the future of PBMR, it will be difficult to evaluate and make recommendations for further funding of the project.

PBMR legally remains a subsidiary of Eskom. National Treasury has repeatedly raised corporate governance concerns, relating to the fact that the Department of Public Enterprises interacts with PBMR as if they are owned directly by government.

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2.6 Diary for next six months

Items	May	Jun	Jul	Aug	Sep	Oct
– Announcements of credit rating reviews by S&P and R&I		✓				
– Credit rating review visits by Moody's Investor Services and Fitch Ratings		✓				
– Credit risk analysis of surplus cash invested with SA major banks			✓			
– US$1 billion international capital market bonds issue	✓					
– Implementation of back office system modules						
o Foreign/domestic debt			✓			
o Retail debt					✓	
– ALM annual financial statement inputs	✓					
– Capital structure & dividend policy						
o Corporate plan review	✓					
o Engagement with SOEs & executive authority departments					✓	
– Corporate plans reviewed for Boards composition & committee structure	✓					
– Appoint board members for DBSA, SASRIA, Land Bank			✓	✓		
– Engage DPE & Presidency on Shareholder Management Bill		✓				
– Treasury Operations (TOPS)						
o Identification of SOEs for establishment of treasury functions			✓			
– Development Financial Institutions						
o Revival of DFI review steering committee	✓					
o Finalisation of recapitalisation of DBSA & Land Bank				✓		
o Interaction between NT & Dept of Land Affairs regarding restructuring of Land Bank	✓					

19.2

BUDGET OFFICE

1. Introduction

1.1 Statement of principal purposes of the division

The purpose for Programme 2 is: To provide analysis and advice on fiscal policy and public finances, intergovernmental financial relations and expenditure planning and priorities. To manage the annual budget process and provide public finance management support.

The Budget Office provides fiscal policy advice, oversees expenditure planning and the national budget process, leads the budget reform programme, coordinates international technical assistance and donor finance, supports public private partnerships and compiles public finances.

1.1. Statement of its present structure down to directorate level and indicating staffing levels excluding support staff (present and vacancies).

There are seven chief directorates (the structure of directorates is not relevant here), the first three relate directly to the budget while the other four are not directly related to the budget process.

- Fiscal policy
- Expenditure planning
- Public finance statistics
- Public private partnership unit
- Neighbourhood development partnership grant unit
- International development cooperation
- Public entities governance unit

1.2. Description of the principal 'products' of the division and the processes in which it plays a role divided between those that are,

- Routine: Budget Review, Estimates of National Expenditure, Medium Term Budget Policy Statement, quarterly spending reports
- The Budget Office plays a role in shaping the annual update to the Medium Term Strategic Framework (led by the Presidency). The budget office also gives input into budget and medium term budget speeches.
- The Budget Office plays the role of secretary to the Ministers' Committee on the Budget.
- Ad hoc reports on spending trends.

2. Outline of policy questions presently on the agenda per Chief Directorate in the Division

2.1 What are the most important items on the agenda at the moment

- Joint Presidential working group on responding to the financial crisis

2.2 Where are the likely controversies/disputes with other departments

- Several departments are under tight budget constraints, managing this will be a challenge.
- There is likely to be fights with the DTI on their approach to bailing out companies during the present crisis.

2.3 Issues which are on the horizon and which may need more attention soon.

- The next three years are likely to be very tough, with slower growth in spending and increased demands on the fiscus. Furthermore, we have to improve value for money in this context.
- The Comprehensive Expenditure Review.
- Getting better information on donor assistance.
- Providing better advice on personnel and capital budgeting.
- Improving the PPP project pipeline.

3. *Current policy processes*

3.1 Narrative account of processes linked to the policy questions identified above

- The budget process starts around June with a discussion on the key priorities that would feed into the MTSF, that will be discussed at the July Cabinet lekgotla.
- The Ministers' Committee on the Budget is the key political institution that provides political oversight, on behalf of cabinet, over the budget process.
- The Medium Term Expenditure Committee, which consists mainly of officials from treasury and PCAS, sits in late August, early September to review departmental budget submissions.
- The Treasury Committee, a committee of ministers including the President, sits to decide on unforeseen and unavoidable spending in mid-September.
- The MTBPS and Adjustments Budget are tabled in the last week of October.
- Final allocation letters are sent to departments in November, with the budget finalised early January for tabling in mid-February.
- A radical idea would be not to have a 2010 round of spending allocation, to keep the present forward estimates and use the Comprehensive Expenditure Review to feed into the 2011 Budget.
- The Comprehensive Expenditure Review should be led by the Presidency but with key involvement by the Treasury. The objective should be to find cash savings from programmes either by doing things differently or by reducing wastage or ineffective programmes. This is a time bound process that should last about six months from June to November.

3.2 *Diary for next six months*

- Paper on spending trends and priorities to feed into the MTSF by June
- MTBPS and adjustments budget at end October
- Comprehensive Expenditure Review by end November
- MTEC hearings scheduled for August/September

4. *Vision statement relating to where the division should be in three years time*

To have made more progress in:

- Using performance indicators to (enable parliament to) hold departments accountable
- Doing more serious expenditure evaluations
- Aligning donor aid with the budget process
- Get spending on infrastructure (e.g. NDPG) going
- Greater use of PPPs and better value for money
- Producing a consolidated general government fiscal framework.
- More transparent approach to communicating and using the structural budget balance.

CORPORATE SERVICES DIVISION

1. Introduction

1.2 Principal purpose of the Division:

Corporate Services is a strategic enabler. It provides an integrated range of support services to enable National Treasury to achieve its strategic and operational goals.

2. Routine policy and operational activities

2.1 Integrated Document Management System (IDMS) & Project Support Office (PSO):

- Development and maintenance of the Electronic Document Management System
- Project support as well as administration and training.

2.2 Security Management

- Physical safeguarding of the NT premises as well as Information Security
- Ensure Occupation Health and Safety Act compliance.

2.3 Financial Management

- Oversee the preparation of the Annual Financial statements
- Financial accounting and management

2.4 Information Technology (IT)

- Desktop and infrastructure support to all National Treasury users

2.5 Facilities Management

- Facilities and Property Management

2.6 Human Resources Management (HRM)

- Recruitment to fill the expanded NT structure, including Graduate recruitment
- Human Resources Development and training
- Performance Management & System
- Organisational Development and Design

3. Exceptional operational and policy activities

3.1 Corporate Services

- Securing of all International meetings hosted by the Ministry of Finance and ensures full support to all special events and meetings.

3.2 HRM

- Development an management of a Leadership Development programme specifically for NT
- HR Development programme for technical training

4. Policy questions presently on the agenda per Chief Directorate is as follows:

Most important items on the agenda at the moment is:

4.1 Internal Audit

The establishment of a full in-house function in line with the approved structure, which will yield the following benefits for the National Treasury:

- A globally benchmarked and functioning internal audit unit; which will include operational, skills development and performance management methodologies; and
- Retention of intellectual/organisational memory

4.2 IT

- Rationalising the number of Websites currently under the National Treasury umbrella as well as all the IT Servers currently distributed in the various areas in NT.

4.3 Financial Management

- Contract Management Framework
- Demand Management Plan
- Supply Chain Management Strategy

4.4 Security Management

- Establishment of a Vetting Field Unit.

4.5 Facilities Management

- Adequate office accommodation for an expanded National Treasury structure.

5. Likely controversies/disputes with other departments:

5.1 Facilities Management

Department of Public Works – in terms of office accommodation:-

DPW views NT's accommodation as A grade where there are still important initiatives that NT wants to implement. Other Departments do not have basic facilities and therefore we are not considered a priority in terms of accommodation.

Department of Mineral and Energy:- This department is not taking the lead in respect of converting government buildings into energy efficient ,green buildings and NT Facilities Management have decided to embark on this project as a matter of urgency.

6. Issues on the horizon and which may need more attention soon:

6.1 Security Management

- Establishment of a Vetting Field Unit.

6.2 Facilities Management

- Environmental friendly and green buildings that conform to global energy efficiency trends.

6.3 IDMS & PSO

- Implementation of a digital signature facility.

7. Current policy processes

Narrative account of processes linked to the policy questions identified above

7.1 IDMS & PSO

- In the process of reviewing the final options available, with specific emphasis on security matters as described by COMSEC.

7.2 Facilities Management

- Currently liaising with stakeholders in terms of best practices for conversion to energy friendly, green buildings. First phase implementation on sensor lights and electrical installations currently underway.

7.3 Security Management

- Currently in the process of reviewing the Security Management structure to incorporate a Vetting Field Unit in NT, as dispensated by Parliament.

8. Diary for next six months

8.1 Financial Management

- Submission of Annual Financial statement by 29 May 2009

8.2 HRM

- Performance Evaluation especially the finalisation of the performance evaluation for 2008/2009.

9. Formal engagement with other departments/spheres of government already scheduled

9.1 Security Management

- Conclusion of a memorandum of understanding with NIA on the establishment of a Vetting Field Unit.

9.2 Engagements at international level:

- United Nations' Commission on the Status of Women Affairs in the World today.

10. Vision Statement within the next three years:

The Corporate Services team provides and sustains an integrated range of innovative solutions designed and implemented to enable National Treasury to achieve its strategic and operational goals.

We will:

- Partner with our clients to mobilise the talented people and efficient systems required for success and;
- Champion integrity, good governance and sound business practices.

ECONOMIC POLICY

1. Introduction

1.1 Principal purpose of the Division

The principal purpose of the Economic Policy Division is to provide specialist policy analysis, economic modelling and advisory services to the Minister of Finance in the areas of macroeconomics, microeconomics and regulatory reform.

1.2 Structural breakdown of the Division

The structure of the division was approved by the Department of Public Service and Administration in 2008. The structure provides for 4 Chief Directorates, namely Macroeconomic Policy Analysis, Microeconomic Policy Analysis, Regulatory Impact Analysis, and Modelling and Forecasting.

The full staff complement of the Division is meant to be 57 – currently 28 positions have been filled and 29 are vacant. The highest vacancy rate is in the Microeconomic Policy and Regulatory Impact Analysis units due to the unavailability of suitable qualified people in the market.

1.3 Principal products of the Division and processes the Division plays a role in

Routine products

- Quarterly macroeconomic forecasts
- Structural budget balance forecasts
- Chapter 2 of the Budget Review and MTBPS
- Economic assessment of various policy proposals from other sections of the National Treasury and other government departments
- Policy memoranda on current economic developments
- High frequency reports on various economic data
- Speeches and speaking notes for the Minister and Director General
- Presentations for the Minister and Director General
- Meetings with local and foreign investors, multilateral institutions, and ratings agencies to discuss South Africa's economic outlook

Exceptional products

None

1.3. Processes that the Division is involved in

- Chairing the Macroeconomic Standing Committee that has been set up as part the memorandum of understanding with the South African Reserve Bank
- Represent the National Treasury in the Statistics Council

- Represent the National Treasury in the Economic Cluster
- Represent the National Treasury in the Economic Impact Committee of the National Electricity Response Team
- Represent the National Treasury in various interdepartmental task teams as assigned by the Director General.

2. *Policy questions currently on the agenda per Chief Directorate*

2.1 What are the most important items on the agenda at the moment

Macroeconomic Policy Analysis and Modelling and Forecasting

- Assessing whether South Africa is entering recession (length, depth and duration) and identifying possible policy responses
- Identifying policy reforms to support economic growth and reduce unemployment
- Assessing the economic impact of rising government expenditure on social transfers and economic infrastructure.
- Assessing the economic impact of oligopolistic product markets, and taxes on trade in goods and services.
- Assessing global macroeconomic conditions, the role of the financial sector and credit markets in the economic downturn, and calibrating South Africa's macroeconomic policy stance in the context of external developments.
- Assessing the design and implementation of trade policy.
- Coordination of pilot project being conducted by researchers at Wits to assess the impact of a youth wage subsidy on employment.
- Analysis and assessment of savings trends in South Africa in cooperation with tax policy and public finance.
- Assessing the drivers of capital flows and implications for the funding of the current account deficit.
- Feasibility and impact of Zimbabwe joining CMA and SACU.

Microeconomic Policy and Regulatory Impact Analysis

- What will be the economic impact of industry bailout packages
- What are the microeconomic policies that will enhance growth and improve levels of productivity and competitiveness
- What is the appropriate level for electricity prices that will balance the need to reflect cost of supply and affordability
- What are the economic costs and benefits of various sector support programmes
- What are the economic costs and benefits of various regulations introduced by government.

2.2 Potential controversies/disputes with other departments/stakeholders

Macroeconomic Policy Analysis and Modelling and Forecasting

- Trade reform – DTI
- Export taxes – DTI and DME
- Industrial policy – DTI

Microeconomic Policy and Regulatory Impact Analysis

- Industrial policy priorities – DTI/Economic Cluster
- Requests of government support for specific sectors, in particular the additional support that has been requested by the motor industry as well as the clothing and textiles industries – various government departments
- Priorities in the economic cluster programme of action – Economic cluster

2.3 Issues on the horizon and which may need more attention soon

Macroeconomic Policy Analysis and Modelling and Forecasting

- Improving tax forecasting models
- Developing capacity in more advanced economic models, specifically the Dynamic Stochastic General Equilibrium model
- Labour market reforms
- Trade policy reforms
- Macroeconomic reform in Zimbabwe

Microeconomic Policy and Regulatory Impact Analysis

- Responding to requests for sector support programmes from various government departments
- Product market regulation and regulation of network industries
- Developing a National Treasury position on the implementation of environmental taxes in the current economic environment
- Addressing the need for electricity and water prices to increase in order to fund infrastructure requirements
- Improving efficiency gains by making reforms in network industries

3. Current policy processes

3.1 Narrative account of processes linked to the policy questions identified above

Macroeconomic Policy Analysis and Modelling and Forecasting

Key functions are to provide analysis and comment on the performance of the economy including factors that affect the economic outlook and adjustments to the macroeconomic forecasts when required. This feeds into discussions around the budget process, cabinet meetings and stakeholder meetings. The modelling unit continuously evaluates and updates its economic models to improve the accuracy of forecasts. Models are developed and adapted to analyse new policy issues as they become topical and important,

Economic policy issues and the Treasury's macroeconomic forecasts are communicated twice a year in Chapter 2 of the Budget Review and the Medium Term Budget Policy Statement. More regular updates are provided in the form of presentations to internal and external stakeholders and regular meetings with local and foreign investors with an interest in South African assets, ratings agencies and organisations such as the IMF and OECD. These inputs require continuous evaluation and monitoring of the latest economic developments to ensure that the assumptions underlying our forecasts are realistic and based on sound analysis and reasoning.

Microeconomic Policy and Regulatory Impact Analysis

On-going analysis of current economic trends, analysis of costs and benefits of various policy proposals coupled with engagements with various government departments and stakeholders is important in ensuring that there is evidence based policy making.

3.2 Diary for the next 6 months

Deadlines for key products

- Quarterly macroeconomic forecasts
    - March 2009
    - June 2009
    - September 2009
    - December 2009
- Structural budget balance forecasts
    - September 2009
    - December 2009
- High frequency reports on various economic data – Daily & Monthly

3.3 Formal engagements with other departments/spheres of government already scheduled

- Macroeconomic standing committee meetings with the South African reserve Bank – Quarterly
    - March
    - June
- Economic cluster meetings – Monthly
    - 04 March
    - 01 April
    - 13 May
    - 10 June

3.4 Engagements at international level

- OECD Economic Development and Review Committee, which provides peer review and assessment of country policies and economic conditions, with meetings scheduled about twice a month.
- OECD Short Term Economic Prospects meetings, which provides an in-depth assessment of forecasting of economic conditions around the world, held in June and September/October each year.
- OECD Economic Policy Committee, which meets twice a year, and looks at general themes in policy by high-level participants.
- OECD capacity building on regulatory impact analysis – May 2009 in Pretoria
- World Bank and IMF Spring Meetings – 25 – 26 April 2009
- Occasional support on economic policy issues on the agenda of G20 meetings.

4. Vision statement relating to where the division should be in three years time

We aim to provide the best, sound, responsible, credible, proactive economic analysis to support the objectives of more rapid economic growth, higher employment, and reducing poverty.

2004

TAX, FINANCE AND INTERNATIONAL RELATIONS

NOTE: This division has provided a handover report for each chief directorate: tax policy, the financial sector and international relations.

TAX POLICY UNIT

1. Introduction

1.1 Purpose

The tax policy unit is responsible to advice 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 a good tax, such as equity, efficiency, certainty and simplicity. It is important that the tax system raises sufficient revenue for the fiscus, support sustainable economic growth and other social objectives.

1.2 Structure

The tax policy unit comprises of two chief directorates: Economic Tax Analysis and Legal Tax Design. The economic tax analysis consist of six directors, (i) business income tax, (ii) personal income tax, savings and financial sector, (iii) value added tax, excise duties and sub-national taxes, (iv) Environmental taxes and fuel taxes, (v) tax revenue statistics and (vi) tax revenue estimation. The legal tax design chief directorate consist of five directorates: (i) legal drafting, (ii) business income tax, (iii) personal income tax and savings, (iv) indirect taxes, and (v) tax treaties.

1.3 Principle products – reports / significant meetings, etc.

Routine

The main outputs of the tax policy unit are: (i) the tax proposals for the annual budget as contained in Chapter 4, Annexure C, and Tables 2 and 3 of Annexure B of the annual Budget Review; (ii) the Taxation Laws Amendment Bill that codify the tax proposals into law; (iii) stand alone tax legislation (money bills), e.g. the Minerals and Petroleum Resources Royalty Bill, etc.; (iii) the 2008 Tax Statistics, and (iv) an update on tax revenue estimates and progress on codifying the tax proposal into law in Chapter 4 of the annual MTBPS.

The Legal Tax Design chief directorate is involved, together with the South African Revenue Service, in negotiating tax treaties with other countries.

The Economic Tax Analysis chief directorate is also responsible to the annual tax revenue estimates. These estimates are arrived at through a consultation process through the Revenue Analysis Working Committee (RAWC). This committee includes the tax policy unit and the modeling chief directorate of the economic policy division of the National Treasury, the South African Revenue Service and the South African Reserve Bank.

Exceptional

Only the Minister of Finance may introduce a money bill. It is therefore necessary for the Tax Policy Unit to liaise with other departments that are considering the introduction of earmarked levies and taxes. The Skills Development Levies Act is an example of an earmarked tax that was championed by the Department of Labour. The introduction of this levy (and others) required the concurrence of the Minister of Finance and the Minister of Finance had to introduce the bill to parliament. In some instance the line departments takes the initiative to draft such special money bills and the tax policy unit provide comments. In other instances where the drafting might be more involved the Legal Tax Design chief directorate in consultation with the South African Revenue Service draft the money bill, in consultation with the relevant line department.

The tax policy unit participates in the working of the tax sub-committee of SADC and some of the working parties (sub committees) of the Committee for Fiscal Affairs of the OECD.

2. Policy questions presently on the agenda

2.1 Most important items on the agenda

- The drafting of the 2009 Taxation Laws Amendment Bill, in co-operation with the South African Revenue Service.
- The Minister of Finance to sign a number of tax treaties that have been re-negotiated in preparation for converting the STC regime into a Dividend Tax at shareholder level.
- Updating of tax revenue estimates
- Preparation for the 2009 Tax Statistics
- Initial work of the conceptual framework to publish a Tax Expenditure Report in 2010
- Re-negotiating certain tax treaties, e.g. the Double tax Treaty with Mauritius

2.2 Likely controversies

- The beneficiation strategy drafted by the Department of Mineral and Energy
- The proposed export tax policy document that the Department of Trade and Industry is working on
- The appropriate design of the tax incentives in support of government's industrial policy as announced in the 2008 Budget
- The design of the levy / tax as contained in the proposed National Health Insurance system
- Converting the medical scheme contribution deduction for income tax purposes into a tax credit
- Implementing the new definition of excise duties – possible implication for the SACU revenue sharing arrangement

2.3 Issues on the horizon

- The introduction of a carbon tax and / or an emissions trading regime
- The tax implications of the proposed social security and retirement reforms

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- Tax reforms to facilitate the Financial Centre for Africa (Gateway into Africa) initiative.

3 Current policy processes

3.1 Narrative account of processes

During the course of the year the tax policy unit undertakes research on possible key tax proposals for the following year. This is done from both an economic and legal perspectives. Taxpayers and tax consultants write to the Minister of Finance with suggestions on possible tax changes. The tax policy unit also meets with taxpayers, tax consultants, business associations and other interested parties on listen to their proposal. The tax policy unit also request tax consultants to submit written proposal on technical changes to tax legislation (changes that are intended to clarify the law and the simply the law and to under unintended consequences). The Minister of Finance receives many tax related Tips-for-Trevor.

The Tax Policy Unit of the National Treasury and SARS meets to discuss the key tax proposals. The Tax Policy Unit meets with the Public Finance and Budget Office of the National Treasury to discuss the overall, fiscal policy stance and possible tax changes. Two meetings are scheduled with the Minister of Finance and the Commissioner of SARS to discuss proposed tax changes. Two submissions are prepared of the Minister's approval, one containing the major tax proposals – to be included in chapter 4 of the annual Budget review and one containing technical proposals to be included in Annexure C of the annual Budget Review.

The Legal Tax Design chief directorate and SARS prepare draft tax legislation. The legislation is published for comment and the Portfolio Committee of Finance conduct hearings. The National Treasury and SARS respond to the public hearings and comments in writing and amend the draft legislation where deemed appropriate, subject to the approval of the Minister of Finance.

The tax Bills are introduced into parliament by the Minister of Finance.

3.2 Diary for the next six months

Deadlines

- Formal signature of revised double taxation agreements with about nine countries
- 2009 Taxation Laws Amendment Bill
- Interactive Gambling Bill
- Tonnage tax

Engagements with other departments

- Department of Trade and Industry – tax incentives to support government's industrial policy – finalisation of Regulations
- DEAT – climate change and the pricing of carbon (a carbon tax and / or emissions trading)

Engagements at international level

- SADC – tax subcommittee
- SACU – definition of excise duties, its impact of the revenue sharing arrangement

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- OCED (Committee of Fiscal Affairs (CFA) on its working parties
- International Tax Dialogue – taxation of financial instruments

4. Vision statement

To ensure a robust and dynamic tax system that is equitable, efficient and provides certainty for taxpayers. To ensure that the administrative and compliance costs of the tax system are kept to a minimum and that the collection of tax revenues are maximised within the bounds of tax legislation.

FINANCIAL SECTOR

1.1 What are the most important items on the agenda at the moment

Financial Stability Directorate

- Ongoing monitoring of global and domestic financial stability against the background of international and local economic turbulence
- Monitoring and contributing to international regulatory initiatives (e.g. G20, Basel II)
- Understanding the impact of these on the South African financial system
- Improving data and financial sector information in order to make informed and appropriate policy decisions

Financial Inclusion Directorate

- Finalisation of the financial inclusion policy paper and inclusion indicators
- Establishment of the Co-operative Banks Development Agency
  - Deposit Insurance
  - Co-operative Retail Bond
  - Taxation rules
  - Accounting and Auditing Standards
- Promulgation of the Regulations for the Co-op Banks Act - (ok this is not a policy issue)

Banking Development Directorate

- Drafting of legislation and business case for the establishment of the Deposit Insurance Scheme for commercial and dedicated banks.
- Drafting of legislation for the introduction of dedicated banks
- Implementation of the interim regulations of the Postbank by the SARB

Financial Integrity Directorate

- The finalisation of the Competition Commission enquiry process

2008

- The finalisation of the inputs on the Mutual Evaluation Report of the Financial Action Task Force on Anti-money Laundering

Financial Sector Charter Directorate

- Finalisation of the 2008 annual report
- Gazetting of the Financial Sector Charter as a Code of Good Practice

1.2. Where are the likely controversies/disputes with other departments

- Financial Sector Charter dispute with (1) the community and labour constituencies and (2) with the Department of Trade and industry

1.3 Issues which are on the horizon and which may need more attention soon

- Policy on microfinance – Presidency initiative
- Introduction of the Deposit Insurance Bill in Parliament
- Dissolution of the Financial Sector Charter Council

INTERNATIONAL FINANCE AND DEVELOPMENT

1. Introduction

The purpose of IFD is to improve South Africa's participation at international finance and development fora and institutions, and to support and advise the Minister of Finance on international economic developments.

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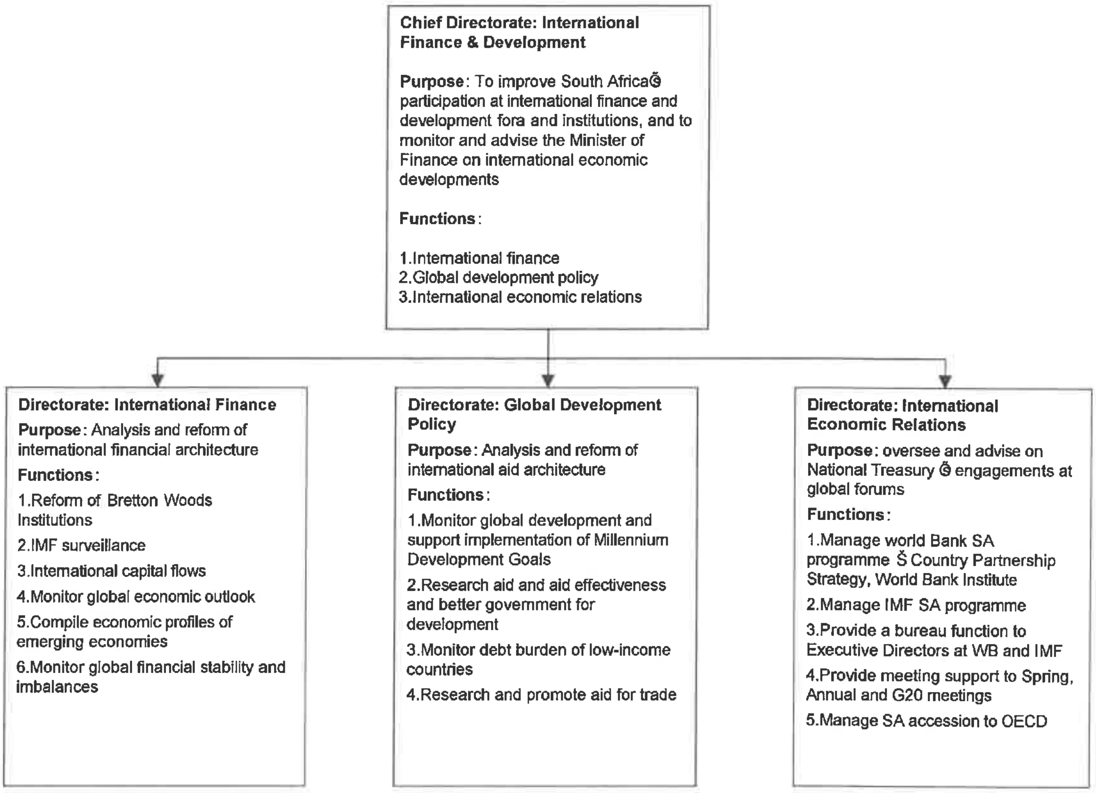

2. Outline of policy questions presently on the agenda per Chief Directorate in the Division

The most important items on the agenda at the moment are the global economic and financial crisis; reform of the Bretton Woods Institutions; and climate change. The Chief Directorate monitors the global response to the economic and financial crisis, nasmely that of the G20, World Bank and International Monetary Fund (IMF), with a view to advising the Minister on what the policy response for South Africa, Africa and the developing world could be. It is important to note that South Africa plays a very important advocacy role in International Finance Institutions for Africa and other least developed countries. Resolution of the current crisis cannot take place without reform of the governance framework of international finance institutions, with a greater say for developing countries in how these institutions function. Climate change is a very important cross cutting issue and South Africa has increasingly become more involved in the global discussion on the matter. The IFD's focus has been on the international response to the financing of climate change which is generating quite a bit of momentum at present. IFD is one of three units in the National Treasury working on climate change the other units are Tax Policy and Macroeconomic Policy.

It is important for South Africa to remain engaged in international fora like the G20, World Bank and IMF as decisions within these fora could have important bearing on South Africa's domestic policy response and direction.

2.1 Likely controversies/disputes with other departments

SA's approach to the G8

Following the 2007 G8 Summit in Heiligendamm, 6-8 June 2007, the Heiligendamm Dialogue Process (HDP) was developed to foster constructive high-level dialogue amongst the G8 countries and Brazil, China, India, Mexico and South Africa (+5 countries) on four key issues: Promoting and Protecting Innovation; Investment, Development (with an emphasis on Africa) and Climate Change. The National Treasury, with the French Development Ministry chairs a working group on Development. The National Treasury has in the past raised concern with the Department of Foreign Affairs (DFA) on the benefits of the working group on Development and its usefulness. A number of problems besiege the Group including: The lack of co-ordination between the five Outreach countries (or even the G4 at a minimum) of positions despite there being attempts at it in the past; failure of the aforementioned is in part due to the fact that members of the other four outreach countries do not consistently send representation from the relevant departments. In most cases these country representatives are from the Ministries of Foreign Affairs and further, for example, Brazil would send Embassy officials as representatives to meetings. This makes caucusing with the outreach countries ineffective as there would be no continuity in the discussions; and The G8 has a Development Ministers Meeting which provides adequate space and opportunity for the Outreach countries to participate and make inputs at a more strategic level. Other departments involved in the dialogue process, namely trade and industry; Science and Technology and Environment and Tourism have similar concerns.

2.2 Issues which are on the horizon, which may require attention soon:

- Strengthening of cooperation between South Africa and the Organisation for Economic Cooperation and Development (OECD);
- Recruitment of South Africa's Senior Advisors in the World Bank and IMF;
- Third Chair for Africa in the World Bank board;
- Coordination of World Bank's programme in South Africa
- Advocacy and engagements in the Development Finance debates

3. Current policy processes

South Africa's engagement with the OECD - The National Treasury coordinates South Africa's relations with the OECD. Of immediate priority is Cabinet's endorsement of a partnership programme/strategy currently available in draft, necessary in further shaping the partnership with the OECD and ensuring responsiveness to country priorities. An agreed programme of action between the OECD and SA will make it possible to keep the relations focused and possible to evaluate.

South Africa has, with Nigeria, a special dispensation, within the World Bank and IMF Constituency offices, to place Senior Advisors there for a 5-year term. South Africa allows Senior Advisors to serve between 3 and 5 years in the respective institutions. This year the current advisors will be entering their third year in October 2009, it will therefore be prudent to start the recruitment and orientation as part of the succession plan.

Third Chair for Africa in the World Bank- There is currently two chairs representing Sub Saharan Africa on the World Bank board. South Africa is represented in a Constituency, along with 22 other countries by one of these chairs. Part of the World Bank reform process in 2008 has seen Sub Saharan Africa receive one more seat, which means the two African Constituencies will need to reconfigure themselves to form three African Constituencies. Important to South Africa is engaging in the discussion around the most appropriate configuration framework for the three Constituencies. Once that is done engaging with the Constituency that South Africa finds itself in and ensuring that it maintains a leadership role, i.e. ensure permanent representation for the country in the form of an Executive Director, representing the Constituency in the Development Committee. This can be achieved through ensuring that South Africa plays a central role in setting up the governance framework of the Constituency it finds itself in.

Co-ordination of World Bank's programme in South Africa: the IFD also oversees the World Bank – South Africa partnership strategy and monitors and guides the engagements between national departments and the World Bank including preparation and processing and application for loans. South Africa has an ambitious infrastructure programme over the next three years and financing this programme may mean that South Africa could borrow from the World Bank.

Advocacy and engagements in the development finance debates. In line with the United Nations Monterrey Consensus regarding Financing for Development, the IFD, in partnership with IDC and AEI plays a key role in informing the national position, and in monitoring the implementation of the international agreements.

3.1 *Diary*

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4. Vision statement relating to where the division should be in three years time

Objective	Project	Measure/ Indicator	2008/09	2009 - 11
Engage with reform of the Bretton Woods Institutions	**IMF Reform**	Policy input to help achieve a favourable resolution of the second stage of IMF quota and voice reform Policy that would inform SA's position on IMF non-quota-and-voice reform	▪ Draft a strategy and/or position paper to help inform SA's input at critical meetings. ▪ Monitor developments at the Fund related to reform and provide updates and/or analysis to the Chief Director, DDG / DG ▪ Draft speeches and ad-hoc policy briefs as required by the Minster or DG ▪ Identify key role players, and advise on a possible lobbying strategy ▪ Provide advisory services at relevant meetings, and draft a report-back ▪ Provide commentary to the constituency office, when required, on papers for discussion at the Board ▪ Respond to ad-hoc requests from constituency office ▪ Notify DG / Minister of significant developments	▪ Develop strategy on new generation reform process of the international financial architecture.

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Objective	Project	Measure/ Indicator	2008/09	2009 - 11
	World Bank Reform	Policy reform to ensure greater and more effective representation of the core concerns of developing and low income countries within the World Bank Group	▪ Draft a strategy and/or position paper to help inform SA's input at critical meetings with respect to the proposals for World Bank reform. ▪ Draft a strategy and/or position paper to help inform SA's approach to improving representation and development effectiveness of IDA. ▪ Monitor developments at the Bank related to reform and provide updates and/or analysis to the Chief Director, DDG / DG ▪ Draft speeches and ad-hoc policy briefs as required by the Minster or DG ▪ Liaise closely with the constituency office with respect to efforts to reform the Bank within the Bank and identify key allies in this approach ▪ Provide commentary to the constituency office, when required, on papers for discussion at the Board ▪ Notify DG / Minister of significant developments	▪ Develop strategy for a real increase in voice by low-income and developing countries at the Executive Board of the World Bank

Objective	Project	Measure/ Indicator	2008/09	2009 - 11
	Reform of WB, IMF and ABD Constit-uency	New constituency rules	▪ Adoption of new constituency rules ▪ South Africa and Nigeria are permanent panel members. ▪ Nigeria and South Africa to rotate the additional Alternate Executive Director of the World Bank & IMF Constituency office (to be in line with their representation of the IMFC and DC, respectively) ▪ Conclude work study of the ADB and BWI Constituency offices Investigate the development of a SADC constituency grouping meeting both as a caucus and fora to discuss regional integration	
	Effective Bureau Function	Timely and accurate responses Well coordinated/can vassed positions Regular interaction with senior advisors	▪ Liaison with Senior Advisors in WB & IMF Constituency offices, ▪ On-time responses to voting requests ▪ On time-response for requests for comment ▪ Regular teleconference with senior advisors and Chief Director	

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Objective	Project	Measure/ Indicator	2008/09	2009 - 11
Align the operational activities of the IFIs in SA to contribute to growth and development	**WB Country Partner-ship Strategy implement-ation strategy**	Positive evaluation and review of CPS implementation during 2007	▪ Implementation strategy for CPS developed: Clearly defining areas of engagement, stakeholders and funding ▪ Bi-annual meetings with the Group to improve coordination and develop strategic targets, whilst taking stock; ▪ Regular engagement with Bank Group individually; ▪ Communicate with national depts and institutions on progress & engage them on possible areas of engagement.	▪ Comprehensive review of 2008 implementation and implementation strategy for 2009
	IMF Country Program	Successful IMF policy coordination	▪ Policy engagement with the local IMF office facilitated ▪ Successful staff missions to SA: Article IV (including the preparation of cab memo); and Annual Staff	▪ Policy engagement with the local IMF office facilitated ▪ Successful staff missions to SA: Article IV (including the preparation of cab memo); and Annual Staff
Meeting Support to multilateral engagements involving treasury officials	IMFC DC G20 G4 Common-wealth Finance Ministers G7 outreach/Heiligendam IDA/MDRI related meetings	Logistical and operational support for attendance at meetings Preparation of annotated agenda's Well prepared and timeously circulated briefing notes and background documentation. Clear country	▪ Effective overall provision of meeting support	▪ Effective overall provision of meeting support

Objective	Project	Measure/ Indicator	2008/09	2009 - 11
	Financing for Develop-ment	positions on critical issues Report backs, feed-back to relevant structures and tracking of outcomes Reports to cabinet/IRPS		
Provide advice, research and policy support on issues on the International Finance and Development Agenda	**Research partner-ship agree-ments**	Renewed research collaboration contract 8- 10 papers on selected topics feeding into IFD policy briefs. Leveraging non-funded arrangements with academic and research institution	▪ Review of Monterrey implementation ▪ Strategy paper on the way forward for the Bretton Woods institutions, especially in middle income countries ▪ Climate change and global governance ▪ OECD accession: the road ahead for the G4 ▪ other projects to be defined	▪ Dependent on 2008 programme evaluation.
	Collabor-ate, co-ordinate and pool expertise/ knowledge with relevant depart-ments and units within NT on internation-al finance and develop-ment issues.	Policy discussion papers and briefing notes on key cross cutting issues Engaging with internal and external stakeholders on critical international finance and development policy issues.		

Objective	Project	Measure/ Indicator	2008/09	2009 - 11
	Library and knowledge manageme nt services	Adding and maintaining research material on a continuous basis Maintain and monitor library system		
	IRPS Coordinati on	Regular reports on OECD and G20 provided ahead of the meeting in terms of set format Reports for the govt. POA website Proactive reporting on strategic international events through cabinet memoranda.		
	Ad-hoc requests	Respond to ad-hoc requests to draft speeches/speaki ng notes, and provide commentary.		

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Objective	Project	Measure/ Indicator	2008/09	2009 - 11
Support South Africa's engagement with the OECD	**Build clear and informed national consensus and programme of engagement with the OECD, with a view to possible future decision on accession.**	Evaluation report Cabinet decisions Joint OECD-SA programme Accession to selected OECD conventions	▪ Full and detailed assessment of the implementation of Cab Memo 3 of 2005 leading to clear and informed consensus on objectives and strategy of engagement with the OECD ▪ Formal decisions in respect of OECD engagement programme	▪ Joint SA-OECD programme of engagement is developed and implemented ▪ Systems for better coordinated OECD engagements are in place ▪ Accession to OECD conventions and to the organisation as well is coordinated

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INTERGOVERNMENTAL RELATIONS

NOTE: This division has provided a handover report for each chief directorate: Provincial and Local Government Infrastructure, Local Government Budget Analysis

PROVINCIAL AND LOCAL GOVERNMENT INFRASTRUCTURE

1. Introduction

1.1 Statement of principal purposes of the division

The CD monitors the implementation of provincial and local government infrastructure budgets and facilitates the development and institutionalisation of good practises and capacity building to improve efficiency in the delivery and management of infrastructure. The following are core functions of the unit:

- Development and institutionalisation of best practice framework that includes tools, guidelines and strategies) to improve infrastructure delivery in provinces and municipalities
- Facilitates capacity building to plan, deliver and manage infrastructure in provinces and municipalities
- Monitoring and reporting on provincial and local government infrastructure
- Review of local and provincial infrastructure policy frameworks
- Administration of infrastructure grants

1.2 Structure

The Chief Directorate has three units headed by directors with a staff complement of 3 directors, 6 deputy directors and 9 economists:

- Local government Infrastructure Directorate – 2 DD + 5 Economists
- Provincial Infrastructure Directorate – 2 DD +2 economists
- IDIP PMU – 2 DD + 2 economists

1.3 Description of the principal 'products' of the division and the processes in which it plays a role divided between those that are:

Routine

- Administration of Infrastructure Grant to Provinces ensuring that the flow and spending of the grant complies with the requirements of Division of Revenue Act
- Monitoring of provincial and local government infrastructure spending and delivery. Analytical reports on performance in provincial infrastructure are produced quarterly using the information provinces have to submit before the transfer of their Infrastructure grant instalment

- Administering the capacity building grant to DBSA which is being implemented through Siyenza Manje programme. The programme deploys technical, financial and planning experts in weak capacity municipalities.

Exceptional

Key projects of the Chief Directorates are:

- Roll out of Infrastructure Delivery Improvement Programme – the programme major achievements to-date include: clearly defined tools and guidelines for best practises in planning and delivery of infrastructure; deployment of Technical Assistants to close capacity gaps and build capacity in the provincial departments (education, health and public works); Improved spending capacity in education; improved governance which has resulted in better working relationships between departments, development of Organisational Development models to guide provinces in resolving current organisational challenges in the delivery of infrastructure.
- The Phase 1 of the programme ends in October 2009. The need for the programme still exists as departments are only starting to build their own capacity to deliver. Currently Phase II is being motivated with the support of provincial treasuries.
- Review of Municipal infrastructure policy – A differentiated approach to the flow of MIG was approved by Cabinet last year. A new window for cities has been introduced in MIG for 2009/10 which will result in better integration in the planning and delivery of build environment outcomes.
- Development of maintenance policy – progress has been done in developing policy and procedures for maintenance planning and implementation in education to be implemented from 2009/10. Work still has to be done for other provincial sectors and municipalities.

2. Policy questions

2.1 What are the most important items on the agenda at the moment

- Review of MIG policy following the adoption of a differentiated approach. Municipalities have to be categorised and clear policy procedures outlined for each category. In the current year an approach has been developed for big cities, however work still needs to be done to determine appropriate mechanism for allocating funds between the cities
- Development work for the approach in other categories of municipalities will be a major focus in 2009/10. Key is how we link grant flows with development of capacity to deliver and to maintain the assets in the resource poor municipalities
- Development of maintenance policy – this requires rules to enforce planning and budgeting for maintenance and guidelines for implementation of maintenance budgets

2.2 Where are the likely controversies/disputes with other departments

- The MIG policy review is always controversial in that it consolidates funds from various departments who feel disempowered by not controlling the flow of the grants. The approach to address poor capacity municipalities will be most controversial as sectors would like to take over funding and implementation for those municipalities from dplg.

- Alignment of housing and infrastructure grants as well better coordination of other municipal infrastructure grants such transport and INEP is an issue that needs to be resolved from both policy and strategy perspective.

3. Current policy processes

3.1 Narrative account of processes linked to the policy questions identified above

- Local Government Infrastructure Grant Policy – consultative processes involves municipalities, salga, dplg, DBSA, Cities Network, sector departments (DME, DWAF, Housing, Sports, and Transport). This happens in the established City Budget Forum (CBF) which reports to the Budget Forum and links with Social Cluster for Basic Services. Bilateral meetings are held with stakeholders
- Provincial Infrastructure Grant and Infrastructure Delivery Improvement Programme – inter departmental coordination is achieved through established IDIP structures coordinated by IDIP PMU
- Grant framework and DOR Bill outlines the requirements for the grants and planning as part of institutionalising good infrastructure management practises to address under spending and March spike.

3.2 *Diary for next six months*

- City Budget Forum is scheduled to meet between in August and October 2009
- IDIP Programme Implementation Team and Steering Committee to meet 4 times a year

4. Vision statement relating to where the division should be in three years time

- Good practises in infrastructure delivery management and capacity institutionalised resulting in increased capacity to spend and deliver quality infrastructure which is being properly maintained
- Better reporting on what infrastructure budgets are buying by both provinces and municipalities
- Municipal Infrastructure Grant policy framework that responds to the needs of municipalities is in place, with the cities able to plan and deliver integrated human settlement.

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LOCAL GOVERNMENT BUDGET ANALYSIS

1. Introduction

1.1 Statement of principal purposes of the division

The Chief Directorate: Local Government Budget Analysis is responsible for driving budget reform for local government, amongst other things.

Essentially the division has five strategic focus areas:

- To provide budget support to municipalities;
- To monitor and oversee the implementation of municipal budgets (monitoring and oversight);
- To oversee the implementation of the annual Division of Revenue Act from a local government perspective;
- To produce the bi-annual Local Government Budget and Expenditure Review; and
- To support the implementation of the MFMA.

1.2 **Structure**

The Chief Directorate consists of six directorates. Three of which manage its core responsibility which relates to "Budget Analysis". They are supported by the "Data Management and Support" directorate. The Conditional Grant Monitoring directorate and Spatial Planning Directorates are relatively new directorates. The approved establishment consist of 31 positions of which 16 positions are vacant. 11 positions have already been advertised and the intention is to fill most of these positions by 1 April 2009.

1.3 Description of the principal 'products' of the division and the processes in which it plays a role divided between those that are,

Routine

- Aggregate and publish the budget information (MTREF) of all municipalities annually – End of September.
- Publish on a quarterly basis the financial performance information of municipalities in terms of Section 71 of the MFMA together with a full set of conditional grant financial performance information – 45 days after the month end.
- Production and control of the payment schedule for local government conditional grants.
- Responsible for the local government part of the annual Adjustments Estimate Gazette.
- Maintain the Local Government Database.

Exceptional

- Draft the Municipal Budget and Reporting Regulations, and the associated budget formats
- Produce the bi-annual Local Government Budgets and Expenditure Review

2. Outline of policy questions presently on the agenda per Chief Directorate in the Division

2.1 What are the most important items on the agenda at the moment

As part of driving the Budget Reform Agenda for municipalities, the Chief Directorate has recently published (23 January 2009) the Draft Municipal Budget and Reporting Regulations. Once the public consultation process comes to an end by 05 March 2009, these Regulations will have to be finalised and promulgated before the end of March 2009 for implementation with effect from 01 July 2009.

2.2 Where are the likely controversies/disputes with other departments

- In order to avoid an audit qualification for the National Treasury, the Chief Directorate is about to invoke Section 28 of the 2008 Division of Revenue Act. This implies that the accumulated under spending on Conditional Grants reflected in the books of municipalities will have to be surrendered back to the National Revenue Fund (NRF). This has the potential to evoke significant political fallout.
- The division is currently in discussions with STATS SA about the continued usefulness of that institution's Quarterly Financial Survey on Local Government. Depending on how these discussions evolve, this issue could be resolved amicably, or may require the Minister, as head of both institutions, to provide leadership.

2.3 Issues which are on the horizon and which may need more attention soon

The next logical steps in the Budget Reform Agenda for municipalities, is to start with the development work of a Standard Chart of Account (SCOA) for municipalities. This will be a joint venture between PF, BO, IGR and the Office of the Accountant-General. It is estimated that the project could take up to 18 months to be completed.

3. Current policy processes

The division is currently dealing with the following policy issues:

- The finalisation and implementation of the Municipal Budget and Reporting Regulations
- Developing strategies to improve the quality of municipal financial reporting
- Dealing with duplicate efforts in the collection of local government data.

3.1 Narrative account of processes linked to the policy questions identified above

- The finalisation of the Municipal Budget and Reporting Regulations is currently under-way, and is expected to be completed by the end of March. Simultaneously, the division is managing the communication and roll-out of the regulations to the 27 municipalities that are required to develop their budgets in line with the new formats as from 30 June 2009. Thereafter the division will manage the roll-out of the budget formats to the remaining municipalities for the 2009/10 budget.
- The division has made great progress in extending the coverage of the Section 71 reports. In the most recent quarterly publication 282 of the 283 municipalities submitted information. The next challenge is to develop strategies to improve the quality of municipal financial reporting. This is going to be medium to long term project, linked to the implementation of

the budget and reporting formats prescribed in the Municipal Budget and Reporting Regulations.

- The division co-ordinates the Local Government Data Forum, which was established to deal with duplicate efforts in the collection of local government data. As indicated above, we are currently in discussions with STATS SA around the usefulness of the Quarterly Financial Survey on local government finances.

3.2 *Diary for next six months*

There are no specific events organised. The division's work programme is aligned to the local government budget cycle. Currently the division is engaged in mid-year budget visit. Then it will be reviewing municipal budgets for the 2009/10 financial year, and then reviewing the annual financial statements for the 2008/09 financial year.

3.3 *Deadlines for key products*

Most of the Chief Directorate's deadlines are articulated in both the MFMA and DORA.

3.4 Formal engagement with other departments/spheres of government already scheduled

- Currently conducting Mid-year Budget and Performance Assessment Visits to the 17 non-delegated municipalities – January / February.
- Assess municipal 2009 MTREF budgets (tabled and adopted budgets) – June / July.

3.5 Engagements at international level

None

3. Vision statement relating to where the division should be in three years time

The vision for the Chief Directorate can be summarised as follows:

- Quality local government information input into National policy debates and economic policy alignment;
- Information comparable across all municipalities to aid resource allocation decisions;
- Maximise service delivery outcomes aligned to national targets within affordable, achievable resources;
- Supportive and efficient capacity building; e.g. tools;
- Prevention of municipal financial difficulties before they occur (e.g. budget analysis as an early warning tool);
- Basis of recovery planning if there are difficulties;
- South Africa as a benchmark for reform in other developing nations;

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INTERGOVERNMENTAL POLICY AND PLANNING (IPP)

1. Introduction

1.1 The principal purpose of the CD: IPP

To promote the progressive improvement of the intergovernmental fiscal system based on the principle of co-operative governance.

1.2 The present structure is as follows:

Chief Director x 1, Director x1 Vacant (Provincial Fiscal Framework), Snr Economist x 1, Economist x 1.

Director x 1(LG Budget Process), Snr Economists x 2 (1 Vacant), Economist x1

Director x 1(LG Finance Policy), Snr Economists x2 (1 Vacant), 3 Economists

1.3 Description of the principal 'products' of the CD: IPP and the processes in which it plays a role divided between those that are,

Routine

- Intergovernmental budget process coordination with respect to provinces and local government, including consultations with line-sector departments and appropriate stakeholders, such as FFC and SALGA
- Coordination of intergovernmental fiscal forums (Budget Council, Technical Committee on Finance (TCF) and Budget Forum)
- Division of Revenue Bill/Act, including supporting documentation thereto such as conditional grant frameworks, allocation schedules and explanatory memorandum (Annexure W1)
- Implementation of the Municipal Fiscal Powers and Functions Act
- Inputs into Budget Review and Medium-Term Budget Policy Statement (division of revenue chapters)
- Inputs into the provincial budget and expenditure review (every second year) and local government budget and expenditure review (alternative year)
- Quarterly monitoring of the extent to which local government borrowing is taking place
- Regular interaction with appropriate sector departments and stakeholders on policies that could impact on the funding of local government (electricity and water restructuring, applications for bulk tariff increases for water and electricity, implementation of the Municipal Property Rates Act, progress with the implementation of free basic services, disaster management, and institutional and governance issues related to local government (councillor funding, etc.))

Exceptional

- Provincial borrowing and taxation powers (as and when appropriate)
- Reviews of the provincial and local government equitable share formulas

- Building a borrowing capacity model for municipalities and building a framework for monitoring municipal investments
- Verification of municipal taxes that existed prior to the enactment of the Municipal Fiscal Powers and Functions Act by 7 September 2009 (once-off exercise)
- Application for new municipal taxes

2. Outline of policy questions presently on the agenda per Chief Directorate in the Division

2.1 What are the most important items on the agenda at the moment

- How should national and provincial concurrent functions (viz. education, health and social welfare) be funded?
- What is the appropriate balance between provincial equitable share allocations and conditional grant allocations?
- Should we increase the scope of provincial and municipal borrowing and own taxation powers?
- Are poorly resourced appropriately funded by the fiscus when taking into account their funding and service delivery constraints?
- Is the two-tiered local government system (category C and B municipalities), including the shifting of functions between these two categories, not hampering service delivery?
- What is the extent of unfunded mandates placed on provinces and municipalities through national legislation and policies?

2.2 Where are the likely controversies/disputes with other departments

- Why does National Treasury want to control provincial spending decisions by progressively funding more through conditional grants rather than the equitable share (National Treasury, Financial and Fiscal Commission, appropriate national line-sector departments and provinces)?
- Is it appropriate to introduce a Public Transport Operations Grant to provinces when it is national government's responsibility to sort out this problem (National Treasury, national Department of Transport, provincial treasuries and departments of transport)?
- Will the Expanded Public Works Programme Incentives Grant, in its present form, achieve its objective of creating sustainable job opportunities?
- Is the equitable share formula for local government appropriately redistributive towards poorly resourced municipalities (SALGA and smaller municipalities)?

2.3 Issues which are on the horizon and which may need more attention soon

- Why can the National Treasury not immediately and/or fully revise the provincial and local government fiscal framework to cater for policy revisions, re-demarcations, and so forth?
- Why is the National Treasury making it so difficult for local government to introduce any new municipal tax (National Treasury, SALGA and municipalities)?

- Why is the National Treasury not facilitating the implementation of the Western Cape Province's fuel levy?
- Will the Gautrain Rapid Rail Link expose the fiscus and/or create a precedent (National Treasury and FFC)?

3. Current policy processes

3.1 Narrative account of processes linked to the policy questions identified above:

- The funding of concurrent functions is a contentious issue as national line sector departments would like to have more of a say over the funding of concurrent functions (education, health and social welfare) whereas provinces would like the flexibility to determine provincial funding priorities. A review is currently underway of the provincial equitable share formula to ensure an improved alignment between national priorities and provincial funding with respect to concurrent functions. Cognisance will need to be taken of the outcomes of dplg's policy review on provincial and local government, as and when they become available, as these outcomes could result in the current service delivery responsibilities (functions) of provinces and local government being amended which would require a revision of the provincial and local government fiscal frameworks.
- The realities (constraints) or time-lag of making changes to the intergovernmental fiscal system to implement funding proposals with respect to policy changes are often not fully appreciated by stakeholders, i.e. can only be done through the formal budget or adjustments budget processes. The National Treasury can therefore only implement the Merafong shift (which is likely to take place in April) from the next budget cycle (2010) with respect to both provinces and local government. The National Treasury will also monitor developments with respect to other possible re-demarcations in order to institute processes accordingly. A comprehensive revision of the data (to the extent possible) that underpins the provincial equitable share, provincial conditional grants, local government equitable share and municipal infrastructure grants will be required. The National Treasury will work with Stats SA, Department of Education, and so forth, to re-align data to the new municipal boundaries (this process will take at least nine months).
- Concerns have been expressed by some stakeholders regarding some of the new conditional grants introduced, such as the newly established Expanded Public Works Programme (EPWP) Incentive Grant and the Public Transport Operations Grant. The National Treasury will interact with appropriate national sector departments, provinces and municipalities to advise them of the benefits for participating in the EPWP Incentive Programme and how to access the funding that will be made available when threshold targets are exceeded. Similarly, the National Treasury, provincial treasuries, and national and provincial departments of transport will be advised of the intended outcomes of the Public Transport Operations Grant (to reform the current bus subsidies system into a more efficient system).
- The National Treasury has in the past been accused of not appropriately funding poorly resourced municipalities. The National Treasury has acknowledged that this is the case and has already undertaken a number of reforms to the local government fiscal system to more appropriately fund poorly resourced municipalities, such as introducing a minimum municipal infrastructure grant (MIG) allocation as part of the 2008 Budget and revising the revenue raising component in the local government equitable share that also favours the funding of more poorly resourced municipalities from the 2009 Budget. These reviews will be continued in future years as further reforms are still possible. The inequitable funding of

district municipalities, where district municipalities with limited service delivery receive large transfers compared to poorly resourced district municipalities with extensive service delivery responsibilities but limited resources, will also receive attention during the review. dplg's policy review of local government could also impact on the future roles and responsibilities of the different categories and types of municipalities that will need to be factored into the local government fiscal framework. Within a limited funding envelope, it is even more important to ensure that existing funding available be appropriately targeted to fund both large urban cities as well as smaller, more poorly resourced, municipalities

- On the opposite side, metropolitan and larger urban municipalities also raise concerns on how the current local government fiscal system works. They would like the power to introduce new municipal taxes without going through the processes prescribed in the Municipal Fiscal Powers and Functions Act. They also argue that they need much more equitable share to perform their service delivery responsibilities towards the poor. Clearly, any new municipal taxes to be introduced need to fit within the national taxation framework. The National Treasury has however acknowledged the need for a differentiated approach where poorly resourced municipalities should be receive adequate funding through the fiscus whereas the own revenue base as well as borrowing of larger municipalities should be enhanced to perform their built environmental responsibilities. This means that in addition to the sharing of the general fuel levy that has been introduced as primary source to replace the former regional service council (RSC) levies, further own resources (such as a local business tax) will be explored as possible options in the medium to longer-term.
- There are various tensions between stakeholders on the appropriate role and functions of local government. For example, there is disagreement (National Treasury, Department of Minerals and Energy, Department of Public Enterprises, Department of Provincial and Local Government, Eskom and SALGA) on the appropriate manner in which to undertake the restructuring of the electricity distribution industry (ED) into six regional electricity distributors (REDs). The extent to which key sectors (Public Service Infrastructure, State, agriculture, etc.) should be liable for property tax is also an issue of debate. The National Treasury participates in forums on these issues and advises stakeholders of the possible financial implications for municipalities. The dplg's review on local government could clarify some of these tensions by more appropriately defining the roles and responsibilities of local government.

3.2 Diary for next six months

Deadlines for key products

Project/programme/product	Deadline for draft report	Final deadline
Gazetting of provincial and local government conditional grant frameworks and allocations in terms of deadlines prescribed in 2009 Division of Revenue Act	31 March 2009	14 April 2009
Proposals on the reform of the provincial equitable share formula	April/May 2009	June/July 2009
Finalising the Gautrain Rapid Rail Project loan		14 April 2009

agreement and transfer of loan		
Proposals on the reform of the local government equitable share formula and the local government fiscal framework	April/May 2009	June/July 2009
Developing of a municipal borrowing model	June/July 2009	
Verification of municipal taxes that existed prior to enactment of Municipal Fiscal Powers and Functions Act (section 12)	July 2009	7 Sept 2009 (prescribed in Act)

3.2.1 Formal engagement with other departments/spheres of government already scheduled

- Regular interactions will take place with appropriate line departments from June 2009 up to January 2010 to discuss conditional grant frameworks and allocations
- Interaction takes place on technical level (consisting of representatives of National Treasury, FFC and selected provinces) to discuss the revision of the provincial equitable share formula and other reforms to the local government fiscal framework as agreed to in line with a Budget Council resolution
- Interaction also takes place on technical level (consisting of representatives of National Treasury, dplg and SALGA) to discuss the revision of the local government equitable share formula as agreed to in line with a Budget Forum resolution
- This unit also participates in initiatives where other national sector departments take the lead, such as electricity distribution restructuring and other electricity related issues (DME and NERSA), water sector restructuring and other water related issues(DWAF), municipal property rates (dplg), implementation of free basic services (dplg), taxation treatment of municipalities (SARS) and provincial and local government data requirements (Stats SA)
- Meetings by intergovernmental fiscal forums:
    - Budget Council Lekgotla meeting - July/August 2009
    - Budget Council and Budget Forum meetings - End Sept/beginning October 2009

3.2.2 Engagements at international level

None currently structured

4. Vision statement relating to where the division should be in three years time

To have made substantial strides in putting in place an intergovernmental fiscal system (based on the principle of co-operative governance) that ensures that all provinces and all municipalities are appropriately and adequately funded to perform their developmental and service delivery responsibilities as enshrined in the Constitution (and supported by national legislation and policies).

MFMA IMPLEMENTATION

1. Introduction

1.1 Principal purposes of the Chief Directorate

- preparing regulations, responding to enquiries, convenes co-ordinating meetings of the various stakeholders, issue guides and circulars, support municipal and provincial officials in implementing the Municipal Finance Management Act.;
- assists municipalities in the development of Financial Recovery Plans.
- assists in building capacity and facilitates appropriate training of municipal officials in financial management.
- monitors progress in implementing the financial management reforms and administers the conditional grant for Local Government Financial Management allocated on the National Treasury Vote.
- works closely with the provincial treasuries and local government departments to achieve the objectives of the MFMA since various responsibilities are shared with the two spheres of government.
- Provide specific support through the development and issuance of training material, facilitation of service providers to undertake appropriate financial management courses for municipal officials. The MFMA help desk facility provides onestop-shop for responses to all enquiries received by the National Treasury as it relates to the MFMA.

1.2 Present structure down to directorate level and indicating staffing levels excluding support staff (present and vacancies)

Chief Director x 1

Director x 1: (Vacant) MFMA Implementation Legislation, Regulations, Monitoring and Reporting, Deputy Director x 1, Economist x 4

Director x 1: Capacity Building and Training; Deputy Director x 1

Director x 1: Municipal Financial Recovery Service, Deputy Director x 1

1.3 Description of the principal 'products'

Routine

- Actioning policy – Develop, review and refine regulations, issue of guidelines and circulars,
- Coordination – Alignment of MFMA activities, internal (delegations undertaken in a coherent manner within NT divisions) and external (coordinate MFMA delegations to Provinces and support implementation with other stakeholders such as DWAF, DPLG, SALGA and training providers)
- Monitoring and reporting – Monitoring System & Database (Undertaking research and surveys to gather information on implementation),Reporting on MFMA implementation to provincial MFMA Units, other NT divisions, Ministry, Legislatures, other national and provincial departments, feeder system to MFRS, Supporting and capacity building – Internal NT, Development of training material and guiding capacity building and training efforts on

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MFMA – External, Education and training providers, support the MFMA Internship Programme, render technical assistance to officials,

- Responding to enquiries via MFMA Help Line, correspondence with municipalities and other stakeholders,
- Grants Management - Finance Management Grant administration including refining the framework, administering payment, monitor and report as per DORA.
- MFMA Website - enhance knowledge sharing and promote effective communication on MFMA to all stakeholders
- Assist in development of Municipal Financial Recovery plans, monitor implementation of recovery plans. Monitor implementation of all capacity building efforts on financial management in municipalities, internship programme.

Exceptional

- Finalise research into skills analysis of the municipalities Budget and Treasury offices to understand gaps in financial management capacity
- Develop and issue new formats on Annual Reporting incorporating financial and non financial information.
- Develop MFMA monitoring indicators to ensure effective monitoring of implementation of the Act.
- Develop a Database consisting of training providers, uptake and completion rate on training programmes, and alignment with increases in internship programme and other skills development efforts to be able to report effectively on the Minimum Competency Regulations as it relates to financial management at municipalities.
- Finalise the Step by Step Guide on development of Financial Recovery Plans for municipalities modelled on Chapter 13 of MFMA

2. Outline of policy questions presently on the agenda per Chief Directorate in the Division

2.1 What are the most important items on the agenda at the moment

MFMA Implementation

- Compliance of Eskom and Water Boards with MFMA processes and timeframes for the tariff setting of bulk resources for the provision of municipal services
- Development of provincial treasury capacity to appropriately support and monitor MFMA implementation in local government
- Alignment of MFMA Indicators across stakeholders
- Develop Miscellaneous Financial Management Regulations, including prescribing MFMA thresholds.

MFRS

Successfully implement recovery plans in those municipalities experiencing financial problems.

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Capacity Building

Raise awareness throughout municipalities on the training efforts and impact positively on skills development in financial management.

2.2 Where are the likely controversies/disputes with other departments

MFMA Implementation

- Reluctance of Nersa and Eskom to adhere to MFMA processes and timeframes for the tariff setting of bulk resources for the provision of Electricity.
- MFMA implementation seen as secondary to PFMA implementation by provincial treasuries and a lack of commitment to priorities support for municipalities by provincial treasuries to give effect to Ministers Delegations
- MFMA Indicators – overlapping and duplication in roles, responsibilities and legislative mandates between NT, dplg and provincial local government departments
- Need to finalise reviews to system of Supply Chain Management and make amendments if required consistent with PFMA and MFMA

3. Current policy processes

3.1 Narrative account of processes linked to the policy questions identified above:

- Need for Minister to intervene by engagement with Ministers of dplg, dme, dpe to address challenges faced with non compliance of legislative processes by Eskom
- Need for TCF to discuss and reinforce skills and capacity resource allocations in provincial treasuries to support MFMA implementation
- Need for Minister to host bilateral meeting with Minister of dplg to agree to address a range of overlapping matters in the MFMA with the possible intention of amending the MFMA to address any duplication and overlaps in financial management. The streamlining of all financial management related aspects to fall under the Minister of Finance will assist in removing duplication, address confusion and focus efforts in a more coherent manner.

3.2 Diary for next six months

Formal engagement with other departments/spheres of government already scheduled

MFMA Coordination Joint meetings with dplg, Salga, provincial treasuries and provincial local government departments:

- 11 and 12 March 2009
- 23 and 24 June 2009
- 15 and 16 September 2009
- 18 and 19 November 2009.

Engagements at international level

CD MFMA attendance and participation at CIPFA (UK) or GFOA (USA) annual conference on financial management reforms and to review latest developments

4. Vision statement relating to where the division should be in three years time

MFMA Implementation – Progressive implementation of the MFMA in 283 municipalities with officials appointed to positions in municipalities having substantially achieved the minimum competencies required in the regulations.

MFRS offering support through in-house capabilities having built appropriate skills to undertake tasks required with limited external support and the finances of municipalities being stabilised due to support measures having been introduced over the past few years.

Capacity Building efforts strengthened through appropriate courses offered by service providers and implemented in a manner that supports skills development programmes to fill gaps identified through skills surveys and needs expressed by municipalities.

PROVINCIAL BUDGET ANALYSIS

1. Introduction

Statement of principal purposes of the Chief Directorate: Provincial Budget Analysis (CD: PBA) is as follows:

- Co-ordinate the budget preparation process for provinces;
- Oversee the budget implementation process and monitoring spending;
- Co-ordinate intergovernmental relations between the two spheres of government;
- Promote sound financial management and implement the budget reform agenda at a provincial level;
- Promote the progressive improvement of the intergovernmental grant system based on the principle of co-operative governance;
- Promote good governance, accountability and transparency; and
- Build the financial management as well as the non-financial management or performance capacity of provincial governments so as to enhance their capacity to implement their legislative mandates, particularly as regards basic service delivery.

Statement of its present structure down to directorate level and indicating staffing levels excluding support staff (present and vacancies)

- The full complement of staff of the Chief Directorate consists of 1 Chief Director, 8 Directors (1 in addition to the establishment, 1x to be job evaluated and x6 filled), 8 Deputy Directors (x6 filled, x1 vacant and x1 to be evaluated), x12 Economists (x6 filled, x4 vacant and x1 to be evaluated) x1 Office Manager and 3 Team assistance (x2 filled and x1 vacant); and x2 Interns.
- The current structure provides for 3 Directorates: Provincial Budget Analysis, 1 Directorate: Performance Information, 1 Directorate: Financial Information, 1 Directorate: Financial Management and Training; 1 Directorate: Provincial Public Entities (to be evaluated) and 1 in addition to the establishment.

Description of the principal 'products' of the division and the processes in which it plays a role divided between those that are,

Routine

Budget Preparation and support

- Coordinate the budget preparation process for the provincial sphere;
- Monitor and assess provincial budgets and ensure alignment with broad national priorities;
- Participate in annual provincial visits and MTEC hearings; and
- Formulate reports on provinces for purposes of DG: National Treasury, Minister of Finance, TCF, Budget Council, PCC and Cabinet.

Budget Implementation and monitoring

- Monitor trends in provincial budgets and expenditure on a monthly basis;

- Plan and co-ordinate annual provincial visits and formulation of reports;
- Respond to problem situations or emergencies in provinces;
- Provide inputs and monitor budget database for provincial budgets; and
- Formulate reports on provincial budget implementation for purposes of DG: National Treasury, Minister of Finance, TCF, Budget Council, PCC and Cabinet.

Intergovernmental Co-ordination

- Sectoral responsibilities for all concurrent functions such as Education, Health, Social Development, Housing, Roads and Transport and Infrastructure as well as economic services;
- Participate in 4 x 4 meetings and play supporting role to the Chief Directorate: Social Services in managing these forums;
- Play a supportive role in the Budget Council, MinComBud and other budget related political forums;
- Participate in sector specific CFOs Forum meetings and play supporting role to the Director: Financial Management Training in managing these forums; and
- Collaborate with the Chief Director: Provincial Budget Analysis in support of the DDG: Intergovernmental Relations.

Financial Management and Reform

- To promote effective financial management in provincial sphere;
- Provide support, guidance and monitor implementation of the PFMA at provincial level; and
- Oversee provincial budget reform and new budget formats.

Intergovernmental Grants

- Monitor the implementation of the intergovernmental grants system;
- Contributing towards drafting of the annual Division of Revenue Bill; and
- Determine, maintain and monitor the implementation of annual provincial payments schedules in terms of the annual Division of Revenue Act.

Exceptional

Any other tasks and responsibilities as may be required in order to achieve the desired outcomes as contained in the Chief Directorate's strategic and performance plan and in the performance agreement of the Chief Director: Provincial Budget Analysis for example: Personnel Model; Revenue Forecasting project etc.

2. Outline of policy questions presently on the agenda per Chief Directorate in the Division

What are the most important items on the agenda at the moment:

- Publication of the Provincial Budgets and Expenditure Review 2004/05 to 2011/12.

- Common approach (adoption) of the "Conditional Grant Programme Toolkit" developed with TAU within the National Treasury.
- The development of dynamic induction dossiers intended for provincial officials/political office bears (MEC for Finance).It being an election year, IGR (PBA) anticipates a change of guard and deemed it necessary to develop an induction dossier for the new incumbent.
  - Dossier (1):Review and compile the composite policies, processes, internal and specific information to a condensed practical guide to induct high level implementing agents – from Members of the Executive Council (MEC) and Head of Department (HOD) to operational levels, line managers: Chief Director and up to junior management and new staff;
  - The dossier (2) will be user-friendly in an easily accessible format specifically designed to educate and empower new and existing staff;
- The further development of five modules on Budget Analysis to complement the existing training course and material. The overall objective of this project is to create opportunities for learning and transfer of knowledge to leadership and its support teams, within the spheres of government, specifically focused on the provinces.
- The further development of a "Team Finance WEBSITE and a virtual college for provinces.
- Roll-out of the revenue forecasting model for provinces;
- Further roll-out of the "common drive" in provinces.

Where are the likely controversies/disputes with other departments

N/A

Issues which are on the horizon and which may need more attention soon

N/A

3. Current policy processes

Narrative account of processes linked to the policy questions identified above

- Monitoring implementation of the 2009 DoRA requires issuing of practise notes before the start of new financial year.
- Roll out of the Framework for strategic plans and annual performance plans coupled with training next six months;

Diary for next six months

Deadlines for key products

- Publication for Provincial Budgets and Expenditure Trends publication 30 June 2009
- Dossiers and Course Development time span 3 months since inception.

Formal engagement with other departments/spheres of government already scheduled.

N/A

4. Vision statement relating to where the division should be in three years time

Promote the progressive improvement of financial and performance management at a provincial level.

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PUBLIC FINANCE

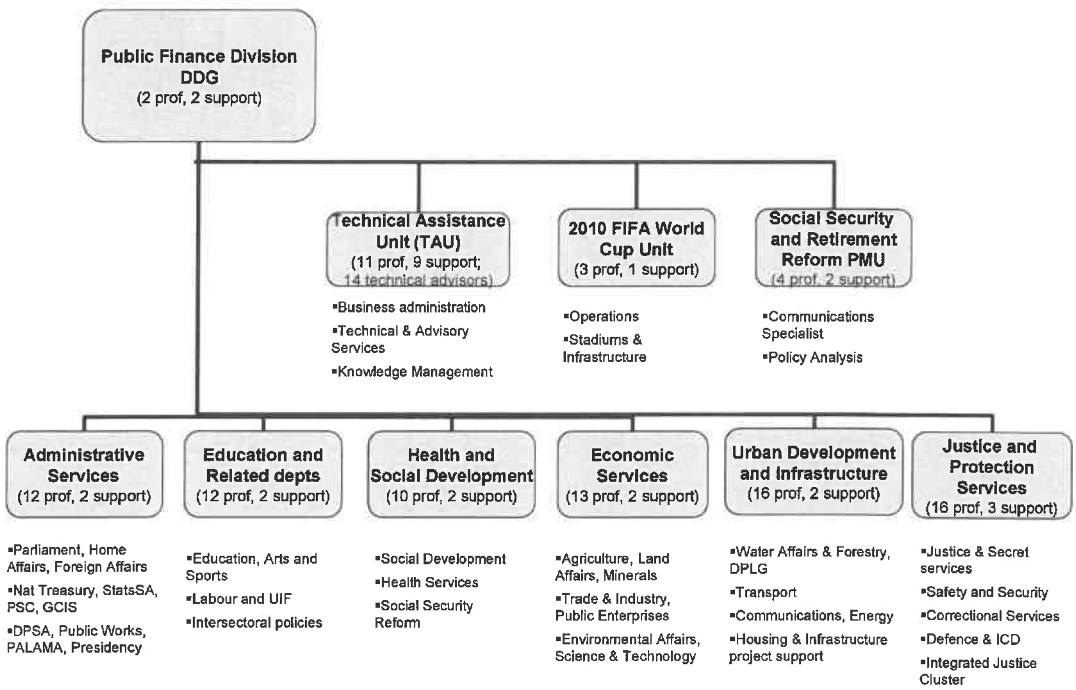
NOTE: Public Finance prepared a great deal more detail about specific policy questions currently on its agenda. This will be made available in a separate document

1. Introduction

The principal purposes of the Public Finance division are to provide analysis and advice on sectoral policies and programmes, monitor public expenditure and advise on financial and budgetary aspects of public policy and spending proposals. Much of the division's work involves liaison with other national departments and government agencies, management of the Treasury's correspondence with other national departments and advice to the Minister on cabinet memoranda and public finance issues that require Ministerial concurrence or treasury approval. The division also provides a range of project and programme management support services.

1.2 Structure

The Public Finance division has six sectoral chief directorates and three specialist units, structured as follows.



The six sectoral or functional chief directorates of the Division have responsibility for liaison with national departments on budget planning and execution and associated policy matters. The Technical Assistance Unit offers project and programme management services to government departments and agencies. The Division also includes two special purpose project management teams: the 2010 FIFA Soccer World Cup Unit, in support of government's responsibilities relating to this event, and a unit responsible for the Treasury's work on social security and retirement reform.

Further details of the staff structure and activities of the Public Finance chief directorates are set out below

1.3 Products

The main 'products' of the sectoral Public Finance chief directorates are advisory submissions, correspondence and inputs to various stages of the annual budget process, culminating in the departmental chapters of the Estimates of National Expenditure and contributions to the Budget Review and other treasury publications.

The main outputs of the Technical Assistance Unit are advisory and technical support services in response to requests from other departments and government agencies. The 2010 FIFA World Cup Unit provides an advisory and project coordination service, focused on the financial and budgetary requirements of the World Cup. The Social Security and Retirement Reform project management unit provides secretarial support to the Interdepartmental task team and coordinates the advisory and consultative processes associated with this reform programme.

Routine

There are several common responsibilities across the six core chief directorates of a 'routine' or ongoing nature:

- Expenditure monitoring – regular liaison with departmental CFOs, monthly and quarterly analysis and reporting on the expenditure of national departments, monitoring of financial management and compliance with PFMA and Treasury Regulations, review of annual reports of departments and public entities
- Budget analysis and execution (national departments) – evaluation of monthly drawings by departments, approval of virements and shifts of funds, rollovers, creation of new transfers and increases to transfer payments, changes to allocations for compensation of employees, oversight and approvals of earmarked funds, review of capital project plans and approval of use of capital spending allocations, review of adjustments appropriation requests, surplus retention by public entities
- Review of annual budget submissions by national departments and public entities and recommendations on medium term expenditure allocations – review of programme structure, objectives and performance information, compilation of reports to Medium Term Expenditure Committee and Ministers' Committee on the Budget, liaison with departments on revisions to medium term spending plans, compilation and editing of Estimates of National Expenditure departmental chapters
- Review of legislation and policy proposals and public service delivery trends – review of departmental strategic plans, liaison with departments on policy options, assessment of fiscal and financial implications of policies and programmes, review and comment on draft legislation and regulations, monitoring of service delivery trends, consultation and advice on public policy and public finance issues, participation in interdepartmental committees and forums
- Contributions to budget publications – compilation of *Estimates of National Education* chapters, inputs for *Budget Review, Medium Term Budget Policy Statement* and intergovernmental fiscal reviews
- Review and approval of tariffs and administered prices for departmental services

- Monitoring and review of public entities' finances – review of proposals for new entities and changes in organizational form, review of borrowing and guarantee requests of public entities and advice to the Guarantee Certification Committee
- Departmental correspondence, files and records
- Advice to Director-General and Ministry on Cabinet memoranda and Ministerial correspondence
- Liaison with Parliamentary committees on departmental expenditure or budget matters and draft replies to Parliamentary questions.

Exceptional

Details of the more specific or 'exceptional' activities, responsibilities and processes of each of the Public Finance chief directorates are set out in further annexures. Notable current activities include:

- Participation in the social security and retirement reform IDTT
- Participation in the Treasury's Guarantee Certification Committee, and advice on borrowing and guarantee requests of Eskom, SAA, Denel, PRASA, amongst others
- Monitoring and advice on the financing requirements of the host cities, stadiums, communication and bus transport services for the 2010 World Cup
- Consideration of industrial support proposals and financing requirements of industrial development zones
- Review of the budgetary and financing issues associated with the election of the fourth parliament and departmental restructuring proposals of the new administration
- Review of the programme structure and associated performance information and service delivery indicators of national votes, as part of the reform and improvement of the budget process.

2. Policy questions and budget issues presently on the agenda of Public Finance chief directorates

The most important items on the Public Finance policy agenda at present include the following:

- Turnaround and transformation of the Department of Home Affairs, and administrative reforms at other central departments, such as the operationalisation of the DPW property management trading entity and establishment of the national Water Resource Infrastructure Agency
- Reforms aimed at improving education quality, including eradication of the school infrastructure backlog and reform of school funding norms
- Review of the skills development legislation and funding arrangements for further education and skills development
- Social security reform, including improved unemployment insurance and restructuring of the compensation funds
- Expansion of EPWP employment and conditions of service of EPWP workers
- Public health funding, health sector financial management occupational specific dispensations for health workers

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- National health insurance design, institutional arrangements and implications for the medical scheme industry
- Comprehensive agricultural support programme and post settlement support to land reform beneficiaries
- Sector-specific industrial support programmes, financing of industrial development zones and financing of small enterprise development
- Devolution of the housing function to municipalities and strengthening of housing finance
- Water infrastructure and services tariff determination and long-term funding
- Public transport infrastructure and financing of rail and bus services
- Road accident benefit scheme design and financing
- Digital broadcast migration funding arrangements
- Criminal justice system revitalization and modernization of systems.

2.1 Potential inter-departmental controversies

Controversies or disputes with other departments are likely to arise in many of these areas, focused particularly on budget implications and the appropriate role of state-owned enterprises or agencies and the balance between public and private sector investment and service delivery.

Significant disagreements are possible in respect of the following:

- Social security design and implementation of reforms
- National health insurance design and phasing
- Devolution of housing to municipalities and the role of housing DFIs
- Public transport services and their funding arrangements
- Industrial development funding and support for industrial development zones
- Land redistribution funding and agricultural development.

2.2 Longer term reform issues on the horizon which will need greater attention in future include

- Skills development funding arrangements and further education development
- Financing of expanded enrolment in higher education
- Electricity demand management
- Implications of climate change for public services
- The role of development finance institutions in economic investment and social development.

A more complete listing of issues currently under consideration in discussion with other departments is set out below. Concise narrative accounts are included in the annexures to this overview.

Administrative Services

- Operationalisation of the Property Management Trading Entity (DPW)
- Establishment of the Lebombo Ressano-Garcia one-stop border post as a tool for trade facilitation
- Accommodation needs for Statistics SA head office
- Turnaround and transformation at Home Affairs
- SA participation on the 2010 Shanghai World Expo (DFA)
- Pan African Parliament Building (DFA)
- Foreign currency movements and budget management (DFA)
- Costs associated with the Fourth Parliament and the administrative transition (Parliament, Presidency)

Education and Related Departments

- Eradicating the School Infrastructure Backlog
- School Funding Norms
- Higher education funding and enrolment growth
- Libraries funding model (DAC)
- Building for Sport and Recreation as part of MIG funding
- Restructuring of the Sheltered Employment Factories (SEFs)
- Review of the IT-PPP between Dept of Labour and Siemens IT Services
- Review of the Skills Development legislation and funding arrangements
- Integration of Occupational Health and Safety (OHS) and Compensation Fund competencies
- Restructuring of the Compensation Fund
- Conditions of service of social sector EPWP workers

Health and Social Development

- Extension of Child Support Grant (CSG) to 18
- SASSA Grants administration – payments system and personnel establishment
- Changes in the flow of funds arrangements for social assistance grants to households
- National Health Insurance
- Public health funding, financial management and provincial over-expenditure on health services
- Occupation specific dispensation – health sector

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- Compensation Commissioner for Occupational Diseases (CCOD) – administrative turnaround and actuarial shortfall

Economic Services

- Automotive Production and Development Programme and motor industry support
- Small Enterprise Development Agency
- Industrial Development Zones
- Customised Sector Programmes
- Recapitalisation of Khula Finance
- Capitalisation of the National Empowerment Fund (NEF)
- Comprehensive Agricultural Support Programme and post settlement support to land reform beneficiaries
- Land redistribution and proactive land acquisition
- State Diamond Trader
- Mine safety and health reform
- Climate change and South African response
- Tourism promotion
- Bio-diversity and national parks
- Expanded public works programme projects
- National Space Strategy and policy framework
- State-owned enterprises: investment plans, financing and guarantees (Denel, Eskom, Infraco, PBMR, Transnet)

Urban Development and Infrastructure

- Devolution of the housing function to metropolitan municipalities
- The provision of housing finance and role of the NHFC
- Free Basic Sanitation (FBSan)
- Establishment of the South African National Water Resources Infrastructure Agency (SANWRIA)
- Regulatory strategy for water services, water tariffs and water board dividend policy
- Water conservation and demand management
- Water trading entity – pricing strategy review
- eThekwini declaration – sanitation funding (0.5% of GDP)
- Free basic water – Phiri Ruling
- New department of Traditional Leadership
- Rail freight

- Passenger rail services – consolidation of services in PRASA
- Public transport and utilisation of expanded inter-city bus fleet
- Road accident compensation
- Transport infrastructure
- Challenges pertaining to electricity sector restructuring
- Petroleum pipeline infrastructure
- SABC funding challenges
- Digital broadcast migration funding challenges
- Telecommunications investment projects

Justice and Protection Services

- Criminal justice system revitalisaton and systems modernisation
- Review of the SAPS programme structure
- Listing of Electronic Communication Security Pty (Ltd) as a public entity
- Listing of the NPA as a public entity
- Funding for the Commission on Gender Equality
- Funding and payment for psychiatric observation and the location of this function
- Seven-day establishment and occupation specific dispensation – Correctional Services
- Management of awaiting trial detainees
- Defence Update 2025: Alignment of Defence with the long-term strategic framework of government
- Revised Non-Statutory Forces Pension Dispensation

Technical Assistance Unit

- Programme and project management (PPM) framework
- Government frameworks
- Public sector programme and project management conference
- Project Management Interest Group
- CIDA case study on TAU

2010 FIFA World Cup Unit

- Stadium cost control and expenditure monitoring
- Transport services and acquisition of buses
- 60 year building and maintenance life-cycle analysis
- Telecommunications and broadcast

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Social Security and Retirement Reform Project Management Unit

- Design of contributory social security arrangements
- Social security governance and system framework
- Coordination of administrative agencies and systems
- Regulatory reform and tax treatment of retirement fund industry
- Links between employment, wages and social security
- National health insurance and complementary social insurance reforms

3. Current policy processes

More details about committees and task teams on which Public Finance teams are represented are provided in a separate document. Suffice it to say that Public Finance chief directors represent the National Treasury on the Governance and Administration, Social cluster, Justice, Crime Prevention and Security, Economic cluster and Information sector FOSAD committees.

National Treasury has the lead responsibility for the social security and retirement reform process. Difficulties have been experienced in achieving effective participation and cooperation on the interdepartmental task team, and limited progress was made in 2008. Appointment of a new project management unit is currently in progress.

The Justice and Protection Services chief directorate plays a convening role in the budget-related work of the integrated justice sector cluster. Public Finance budget directors also play leading roles in convening intergovernmental forums dealing, amongst others, with the financing of education, health, social development and transport services.

As part of the Treasury's broader budget reform programme, Public Finance chief directorates are actively involved in the review of the programme structure of national votes and development of performance information aimed at improved monitoring of service delivery and departmental activities.

Other standing committees on which the Public Finance division is represented include:

- Border Control Operational Coordinating Committee
- Education HEDCOM Finance Sub-committee
- National Skills Fund project steering committee
- Interdepartmental committees on early childhood development, youth, norms and standards for school funding
- Review of higher education and further education funding frameworks
- Child protection forum
- Disability policy steering committee
- National health insurance and health finance task teams
- Board on Manufacturing Industrial Development
- Strategic Investment Programme Committee
- Critical Infrastructure Programme Board

- Export Credit Reinsurance/Interest Make-up Review Committee
- Minerals beneficiation strategy task team
- Water sector leadership group
- Roads Coordinating Body
- South African National Energy Association
- National Electricity Response Team
- Review of bus subsidies financing arrangements
- JCPS Development Committee
- Joint Operational and Intelligence Structure
- CJS Review Committee
- Joint task team on peace missions.

3.1 Key deadlines and forthcoming events include the following.

Deadlines for National Treasury publications, products and budget-related processes:

May 09	Review 4th quarter expenditure 2008/09; preliminary 2008/09 expenditure outcomes
June-July 09	Preliminary discussions with departments on 2010 Budget
End-July 09	1st quarter expenditure
August 09	Departmental budget submissions and draft annual reports
	Public entity budget submissions
Sept-Oct 09	Medium Term Expenditure Committee hearings
October 09	*Medium Term Budget Policy Statement*
	Adjusted Estimates of National Expenditure
End-October 09	2nd quarter expenditure
November 09	2010 MTEF allocations
Dec 09 – Jan 2010	Prepare 2010 Budget ENE chapters
End-Jan 2010	3rd quarter expenditure
February 2010	Budget Day: *Budget Review* and *Estimates of National Expenditure*
	Formal engagement with other departments/spheres of government already scheduled:
June 09	TAU Conference on project and programme management

4. Vision statement on where the division should be in three years time

The Public Finance Division is responsible for both policy advice and budgetary recommendations across the full spectrum of public services and programmes of government, in addition to monitoring budget execution and financial management. Specialist units have responsibility for technical assistance services on project and programme management, fiscal and financial coordination of the 2010 Soccer World Cup and management of the social security and retirement reform project.

Central to the Division's vision for the next three years are the following core goals:

- Strengthening research and analysis to underpin sound policy advice, informed by South Africa's social, economic and developmental priorities and objectives
- An improved structure of budget programmes and performance information, in support of better budgeting and monitoring of public service delivery
- Completion of social security and retirement reform policy proposals and consultation process
- Consolidation of the technical assistance unit into a self-standing government component
- Support for a successful hosting of the 2010 FIFA World Cup, while investing in durable and sustainable stadiums infrastructure, transport and communications service

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SPECIALIST FUNCTIONS

1. Introduction

The principal purpose of the Specialist Functions Division is to manage government's supply chain processes and to implement and maintain standardised financial management systems.

2. Principal focus of the Division

Financial systems

The division maintains the financial and HR IT systems that support business processes in most national departments. These include:

- The Basic Accounting System
- The payroll and HR management system (Persal)
- The Logistics management system (Logis), and
- The business intelligence system (Vulindlela)

In managing these systems, the division uses vendors from Accenture (Persal and Logis) and BCX (BAS and Vulindlela).

The systems currently in use are very dated and are becoming difficult to maintain, in part because there are few technicians who still working who understand the computing languages used in these systems. They were also built on disparate architectural platforms, making them difficult to integrate in such a way as to enable the extraction of business intelligence.

For these reasons, Cabinet approved the phased implementation of the Integrated Financial Management System in September 2005 to replace all of these systems. The scope of IFMS will also include departments using systems currently not managed by Specialist Functions., including SAPS, the DOD, and the provincial government of the North West (with whom negotiations are currently underway to implement this directive).

Phase I of the IFMS focuses on developing user requirements to more fully support the implementation of the PFMA, the development of a master systems plan, and the development of a prospectus for IFMS.

Phase II of the project saw the development of a systems architecture, the preparation of SITA to perform the task of systems integrator, and the reprioritisation of procurement, asset management and HR modules. The implementation of these commenced on 1 April 2009 at the following sites:

- The procurement module was implemented in the National Treasury,
- The asset management module was implemented in the National Treasury and the DOD, and
- The HR management module was implemented at the DPSA and the department of education in the Free State.

The implement of these systems in the less-challenging environments (the Treasury and DPSA) will be completed over six months, while the DOD and the education department will require 12 to 18 months.

Parallel to the implementation of systems in these sites, a comprehensive roll-out strategy is being developed in conjunction with user departments for the full roll out of IFMS in five years.

When approving the IFMS, Cabinet directed that SITA's capacity to perform its roles in this task be evaluated by external consultants. To date, this has not been done. in the recent past, SITA has experienced a high degree of instability at senior management level, developments that put the IFMS project at risk.

Supply Chain Management

The SCM office strives to improve SCM practises. It consists of three chief directorates: Policy, Norms and Standards, and Contract Management.

- SCM Policy coordinates all inputs from the various domains of IFMS to compile the user requirement statement. This is in the process of continuous enhancement. An item identification system has been developed and is being implemented. This unit also provides SAQA with inputs to establish qualification standards for training purposes. Training material is being submitted to the National Treasury for validation and to ensure uniform standards.
- SCM Norms and Standards will issue a new SCM framework in accordance with the requirements of the PFMA and MFMA that will align preferential procurement policies with the requirements of the Broad-Based Black economic Empowerment Act. A guide for accounting officers, along with practice notes and circulars, will be issued when the framework is promulgated. The National Treasury is in the process of strengthening its capacity to monitor SCM compliance to counter corruption and fraud and to complement the role of the Auditor-General. A grievance-reporting facility will investigate complaints at any institution where PFMA or MFMA regulations apply, is being established.
- Contract Management manages transversal contracts where more than one public sector institution is in need of the same product, and is expanding its footprint to cover more of these products.

Possible controversies with other departments

- PALAMA is requesting exorbitant tariffs for the training of SCM practitioners, resulting in delays in this training. This needs to be addressed at a senior level in government.
- BBBEE verification is required for all institutions with a turnover of more than R5 million per year, but there are currently too few verification agencies accredited to perform this function. This will hamper compliance with the BBBEE Act, and requires innovative responses such as allowing auditors to play this role.
- A working group has been established to work with DTI in order to give effect to Cabinet's directive that, within the parameters of existing legislation, the ten most frequently procured products in government should be procured from SMMEs. Progress, in this regard, has not been as rapid as it should have been.

Current policy processes

The new SCM framework will be put out for comment after the revised PFMA is enacted, after which the final framework will be promulgated.

The amended PFMA will require the repeal of the Preferential Procurement Policy Framework Act, and will necessitate revisions to municipal SCM protocols. This, too, will require a formal process of consultation.

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Vision for three years time

- The procurement and asset management modules of IFMS will be implemented.
- The IFMS will be on track for complete rollout in five years.
- A new SCM framework will be in place for all three spheres of government.
- Strategic sourcing principles will apply to all transversal contracts and will be rolled out to all departments, constitutional institutions, public entities and municipalities.