

# 13: STATE EXPENDITURE

## AIM

*The Department of State Expenditure aims to promote public accountability and economic efficiency in the management of the State's finances and movable property, as well as the rendering of an effective computer service.*

## EXPENDITURE ESTIMATES

**Table 13.1 Expenditure by programme**

R million	Expenditure outcomes			Preliminary outcome	Medium term expenditure estimates		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Administration	15,1	16,2	30,5 <sup>1</sup>	25,2	27,8	28,8	30,5
Expenditure management	15,2	20,6	9,5	20,6	18,7	19,1	24,6
Purchase management and reporting	–	11,0	13,5	17,0	17,9	18,7	19,9
Financial management and reporting	81,8	104,3	148,2	160,1	154,4	161,6	167,4
Computer services	74,3	68,9	83,4	95,9	75,8	85,8	89,5
Auxiliary and associated services	804,7	913,3	780,4	851,9	886,3	967,7	1 008,3
<b>Total</b>	<b>991,1</b>	<b>1 134,3</b>	<b>1 065,5</b>	<b>1 170,7</b>	<b>1 180,9</b>	<b>1 281,7</b>	<b>1 340,2</b>

<sup>1</sup>Included authorised losses of R6 million.

- ◆ *Administration* comprises financial management, personnel and provisioning administration, legal and other office support services and the formulation of policy by the Minister and management of the department.
- ◆ *Expenditure management* deals with policy research, planning and expenditure control.
- ◆ *Purchase management and logistics control* is responsible for the management of purchases in the public sector and exercising control over movable state property. This programme includes the activities of the State Tender Board.
- ◆ *Financial management and reporting* provides a financial management support service and Exchequer management and financial reporting.

- ◆ *Computer services* augments the trading account and undertakes the procurement of capital equipment. It also provides computer and related training in the government sector.
- ◆ *Auxiliary and associated services* makes transfer payments to the Secret Service and delivers other finance-related services.

**Table 13.2 Economic classification of expenditure**

R million	Expenditure outcomes			Preliminary outcome	Medium term expenditure estimates		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Current							
Personnel expenditure <sup>1</sup>	35,8	41,2	40,2	50,0	56,4	58,5	60,0
Other current expenditure	155,4	115,8	169,5	268,9	192,6	281,0	333,8
Transfer payments	719,6	873,0	780,4	753,6	859,6	862,2	864,0
Capital							
Transfer payments	71,4	100,6	75,4	88,0	69,3	77,6	79,5
- Acquisition of capital assets	8,9	3,7	-	10,2	3,0	2,4	2,9
<b>Total</b>	<b>991,1</b>	<b>1 134,3</b>	<b>1 065,5</b>	<b>1 170,7</b>	<b>1 180,9</b>	<b>1 281,7</b>	<b>1 340,2</b>

<sup>1</sup> Departmental personnel expenditure includes employer's contributions to pension funds at a rate of 17 per cent of basic salary in 1998/99 and 15 per cent of basic salary in subsequent years.

## OUTPUTS AND SERVICE DELIVERY TRENDS

### Financial systems

A new reporting framework and accounting policies for the Public Service, based on Generally Recognised Accounting Practices (GRAP) is being developed. This will effectively result in a change from cash accounting to accrual accounting. The GRAP project has been initiated to develop accounting guidance for the public sector based on the Statements of Generally Accepted Accounting Practice (GAAP) of the private sector.

Internationally there is a project under the management of the Public Sector Committee of the International Federation of Accountants (IFA PSC) to develop authoritative accounting standards for governments world wide. South Africa will eventually have to align itself with the international accounting practice for governments.

### Banking services

The Department is investigating the feasibility of outsourcing banking services for national departments. Provision was made for an electronic payment service with effect from August 1997. As a result, a significant reduction in warrant vouchers issued and processed per month has been achieved.

From August to December 1997 the Office of the Accountant General detected and prevented 239 fraudulent warrant vouchers and departments detected and reported an additional 130 fraudulent warrant vouchers during the same period. This brings the total for the five months to 369 out of 1,7 million warrant vouchers presented for payment (0,22 per cent of the number of cases). In value the fraudulent warrant vouchers so detected and reported amounts to R18,3 million out of a total value of

approximately R117,2 billion (0,016 per cent of the total value processed). Potential losses amount to R3,6 million.

**Motor vehicle financing scheme**

A new financing arrangement has been implemented whereby loans financed by the Central Revolving Fund have been transferred to Stannic. Approximately 2 500 loans, with a total value of R250 million, are now administered by Stannic.

**Management information**

A management information system was developed to provide management information on human resource planning, personnel management and personnel expenditure. The system provides information on personnel and financial issues. It also facilitates control and verifies the validity of personnel records on the personnel and salaries system (PERSAL).

To improve the validity of records on PERSAL, a project to rectify all invalid or incorrect identity numbers was launched in 1997. As a result the number of invalid or incorrect identity numbers has been reduced by 62 per cent. This project has since been extended to all provinces/departments to rectify any outstanding invalid identity numbers.

**Provincial operational support**

PERSAL is currently rendering an operational support and user training service in eight of the nine provinces. The main objective of this support is to establish provincial help desks in the provinces as an extension of the central help desk at the Central Computer Services (CCS) centre. The support is to assist with the restructuring of the provinces' establishments, the interface with their financial systems, the recovery of overpayments to employees and identifying "ghost" appointments through audits performed. Proper training of personnel is also provided, to ensure the correct use of the PERSAL system, so that sound administration procedures are in place, for it to function properly.

**Financial capacity building**

In order to facilitate the professional development of staff in national and provincial governments, the OAG initiated the establishment of the Institute for Public Finance and Auditing (IPFA).

The OAG has also established a Directorate of Financial Management Education and Training during the 1997/98 financial year. A comprehensive financial training needs assessment was conducted at both national and provincial levels. In this regard the departments assisted the Public Service Commission with evaluations of the Departments of Home Affairs and Welfare.

**Procurement and logistics**

The State Tender Board is responsible for procurement and logistics of the Public Service. Its output is to ensure that the procurement system serves as an instrument to support the overall social and economic objectives of Government.

**Central Computer Services**

Central Computer Services (CCS) has an objective to ensure that the organisation is aligned to the client's goals and objectives. These goals are driven by a commitment to improved service delivery standards, sound business principles and quality. It has identified issues which need to be addressed. These are the skills shortage and inability to retain staff, lack of methods to determine efficacy in terms of world standards, the Year 2000 compliance requirements, a lack of disaster recovery capability, the development of an efficient cost recovery methodology and means of cost quotation.

A transformation plan was developed to guide the implementation of changed processes of the CCS. The outsourcing of non-core support functions, combined with the establishment of the State IT Agency (SITA), contributed to the resolution of the skills shortage and retention of staff problems. Several initiatives have been launched to improve the lack of service orientation including the development of a code of conduct and good practice.

## **POLICY DEVELOPMENTS**

The Department continuously endeavours to investigate ways to improve budgetary processes of government to ensure transparency and efficiency regarding state financial resources.

### **Policy framework for the enhancement of financial management**

Research has been conducted by the Department with regard to international developments, best practice and reform initiatives in the budgeting and financial management field. Valuable insights were gained into the manner in which both first and third world countries manage their budget processes and financial resources. This research resulted in a policy framework for the enhancement of financial management.

### **Technical manual: Budget Reform**

The White Paper on Budget Reform, Budgeting for Results, is a joint undertaking between the Departments of State Expenditure and Finance. The Department of State Expenditure was responsible for compiling a detailed technical manual to improve the financial management and management systems in government.

This technical manual will provide practical guidelines on departmental planning (strategic and business plans) and a revised format of the Estimates of Expenditure in support of performance based budgeting. This will provide adequate information on outputs, costs of services and service delivery performance information, as well as mechanisms for performance evaluation.

### **Green Paper on Public Sector Procurement Reform in South Africa**

During the 1996/97 financial year, the department undertook a detailed study into public sector procurement reform in South Africa. The key objective of this study was to investigate ways of making the tendering system more easily accessible to the small, medium and micro enterprises. A task team comprising representatives from the public and private sectors was appointed to introduce the procurements reform process. Subsequent to this, a Green Paper on Public Sector Procurement Reform in South Africa was published.

### **Uniform Treasury norms and standards**

The Department of State Expenditure is in the process of finalising uniform Treasury Norms and Standards as regulated by the Constitution. These Treasury Norms and Standards have been included in the Treasury Control Bill that will be tabled in Parliament during 1999. It will serve as secondary legislation, replacing the present Treasury Instructions.

## DISCUSSION OF PROGRAMMES

### Programme 1: Administration

R million	Budget estimate	Adjusted appropriation 1998/99	Preliminary outcome	Medium term expenditure estimates		
				1999/00	2000/01	2001/02
1998 Budget	26,9	27,0	25,2	27,8	28,6	–
<b>1999 Budget</b>	–	–	–	<b>27,8</b>	<b>28,8</b>	<b>30,5</b>

Policy formulation by the Minister, Director-General and other members of the Department's management are dealt with under this programme. It involves organising the department, rendering centralised administrative and office support services, managing departmental personnel and financial administration, determining working methods and procedures and exercising control.

### Programme 2: Expenditure management

R million	Budget estimate	Adjusted appropriation 1998/99	Preliminary outcome	Medium term expenditure estimates		
				1999/00	2000/01	2001/02
1998 Budget	23,4	22,0	20,6	23,8	24,1	–
<b>1999 Budget</b>	–	–	–	<b>18,7</b>	<b>19,1</b>	<b>24,6</b>

To promote the effective and efficient utilisation of State funds, the *Expenditure management* programme includes:

- ◆ Policy research to improve budgetary and related processes.
- ◆ Planning, co-ordination and determining expenditure allocations for the estimates of state expenditure.
- ◆ Expenditure control in respect of social and intergovernmental, economic, protection and functional services and guidance to spending agencies on the implementation of measures which will lead to improvements in their use of funds.

### Programme 3: Purchase management and reporting

R million	Budget estimate	Adjusted appropriation 1998/99	Preliminary outcome	Medium term expenditure estimates		
				1999/00	2000/01	2001/02
1998 Budget	17,2	18,2	17,0	17,9	18,5	–
<b>1999 Budget</b>	–	–	–	<b>17,9</b>	<b>18,7</b>	<b>19,9</b>

The programme regulates and controls procurement and movable state property. It is responsible for formulating and implementing policy regarding purchase management in the public sector, as well as giving training and advice in respect of purchase management matters.

**Programme 4: Financial management and reporting**

R million	Budget estimate	Adjusted appropriation	Preliminary outcome	Medium term expenditure estimates		
		1998/99		1999/00	2000/01	2001/02
1998 Budget	146,8	171,2	160,1	154,4	161,5	–
<b>1999 Budget</b>	–	–	–	<b>154,4</b>	<b>161,6</b>	<b>167,4</b>

The programme is responsible for developing, implementing and maintaining an acceptable financial management and reporting system. It includes:

- ◆ Financial management and support services.
- ◆ Exchequer management and financial reporting. This includes the funding of departmental bank accounts and developing and implementing an acceptable financial reporting system for the National Revenue Fund.

**Programme 5: Computer services**

R million	Budget estimate	Adjusted appropriation	Preliminary outcome	Medium term expenditure estimates		
		1998/99		1999/00	2000/01	2001/02
1998 Budget	101,0	102,6	95,9	75,1	84,7	–
<b>1999 Budget</b>	–	–	–	<b>75,8</b>	<b>85,8</b>	<b>89,5</b>

The programme augments the Computer Services Trading Account, procures capital equipment and promotes computer training in the government sector.

**Programme 6: Auxiliary and associated services**

R million	Budget estimate	Adjusted appropriation	Preliminary outcome	Medium term expenditure estimates		
		1998/99		1999/00	2000/01	2001/02
1998 Budget	914,5	911,2	851,9	966,0	967,4	–
<b>1999 Budget</b>	–	–	–	<b>886,3</b>	<b>967,7</b>	<b>1 008,3</b>

Provision is made for miscellaneous payments and services, including:

- ◆ Augmentation of the Secret Service Account to fund the secret services. The amounts provided for the medium term expenditure period are R861,4 million, R862,3 million and R864,0 million respectively.
- ◆ Payment of bank charges in respect of the deposit scheme on behalf of all state departments.
- ◆ The programme supports the planning, implementation and monitoring of RDP projects.

- ◆ Development and support of management information systems.
- ◆ Provision of compensation for shortfalls of statutory bodies.