

# Vote 8

## National Treasury

R thousand	2007/08 To be appropriated	2008/09	2009/10
<b>MTEF allocations</b>			
Administration	143 732	159 113	180 418
Public Finance and Budget Management	172 407	166 017	173 821
Asset and Liability Management	57 739	60 482	62 906
Financial Management and Systems	722 237	824 804	828 199
Financial Accounting and Reporting	82 076	88 916	93 562
Economic Policy and International Financial Relations	86 663	79 513	82 726
Provincial and Local Government Transfers	7 159 275	8 496 707	9 846 697
Civil and Military Pensions, Contributions to Funds and Other Benefits	2 338 308	2 452 688	2 590 292
Fiscal Transfers	8 945 741	9 512 442	10 146 679
<b>Total</b>	<b>19 708 178</b>	<b>21 840 682</b>	<b>24 005 300</b>
Direct charges against the National Revenue Fund	224 187 393	246 440 825	266 699 312
<b>Total expenditure estimates</b>	<b>243 895 571</b>	<b>268 281 507</b>	<b>290 704 612</b>
<b>Economic classification</b>			
Current payments	55 600 869	55 837 085	53 921 232
Transfers and subsidies	188 282 812	212 431 630	236 771 287
Payments for capital assets	11 890	12 792	12 093
<b>Total expenditure estimates</b>	<b>243 895 571</b>	<b>268 281 507</b>	<b>290 704 612</b>
Executive authority	Minister of Finance		
Accounting officer	Director-General of the National Treasury		

### Aim

*The aim of National Treasury is to promote economic development, good governance, social progress and rising living standards through the accountable, economical, equitable and sustainable management of public finances.*

### Programme purposes

#### Programme 1: Administration

Provide strategic management and administrative support to National Treasury, giving managerial leadership to the work of the department.

#### Programme 2: Public Finance and Budget Management

Provide analysis and advice on fiscal policy and public finances, intergovernmental financial relations and expenditure planning and priorities. Manage the annual budget process and provide public finance management support.

#### Programme 3: Asset and Liability Management

Manage government's financial assets and liabilities.

#### **Programme 4: Financial Management and Systems**

Manage and regulate government's supply chain processes, implement and maintain standardised financial systems, and co-ordinate the implementation of the Public Finance Management Act (1999) and related capacity building initiatives.

#### **Programme 5: Financial Accounting and Reporting**

Set new, and improve existing, accounting policies and practices to ensure compliance with generally recognised accounting practices (GRAP), prepare consolidated financial statements, and improve the efficiency of financial reporting in the public service.

#### **Programme 6: Economic Policy and International Financial Relations**

Provide specialist policy analysis and advisory services in the areas of macroeconomics, microeconomics, regulatory reform, tax policies, financial and banking sector policy and regulation, and regional integration and international financial relations.

#### **Programme 7: Provincial and Local Government Transfers**

Manage conditional grants to the provincial and local spheres of government.

#### **Programme 8: Civil and Military Pensions, Contributions to Funds and Other Benefits**

Provide for pension and post-retirement medical benefit obligations to former employees of state departments and bodies, and for similar benefits to retired members of the military.

#### **Programme 9: Fiscal Transfers**

Transfer funds to other governments, public authorities and institutions in terms of the legal provisions governing financial relations between government and the particular authority or institution, including international development institutions of which government is a member.

### **Strategic overview: 2003/04 – 2009/10**

#### *Fiscal reform and public finances*

In support of government's Accelerated and Shared Growth Initiative for South Africa (ASGISA), National Treasury's work on fiscal policy and budget reform is currently focused on strengthening infrastructure investment and maintenance, broadening participation in the economy and improving the quality of social services. Improved budget planning, better documentation and greater transparency in public finances continue to be key priorities and the Treasury is expanding its capacity to provide technical support, particularly for infrastructure planning and project management.

Planning and budgeting challenges associated with the 2010 Soccer World Cup are being addressed through a dedicated unit working closely with the local organising committee and the Deputy Minister of Finance. Spending on stadium construction and transport systems for the World Cup will happen during the MTEF period. Preparatory work for the public-private partnership (PPP) Gautrain Rapid Rail Link project has been completed. The Treasury's work on PPPs for the period ahead will include a strong focus on contract management and oversight. A dedicated unit has been set up to support the new neighbourhood development partnership grant through which investment partnerships in townships and low income residential areas will be encouraged.

Monitoring service delivery and spending programmes depends on reliable and appropriate performance information. Working closely with the policy co-ordination and advisory service in the Presidency and other

government departments, the Treasury will devote special attention to improving performance measurement and associated information systems, and incorporating relevant information into budget planning and monitoring systems.

### *Intergovernmental fiscal relations*

The initial focus of intergovernmental fiscal relations was largely aimed at creating the legal framework and institutions that constituted and shaped provinces and local government. The main focus over the medium term is to comply with the legal framework, consolidate the institutions and improve their capacity to deliver.

In this regard, a substantial part of the resources within the intergovernmental relations branch will be used to fund capacity support initiatives such as the infrastructure delivery improvement programme (IDIP). A full rollout of the programme will involve deploying technical experts, mainly in the area of infrastructure delivery, to assist departments of education, health and public works in the provinces.

While the largest slice of revenue still goes to provinces, grant allocations to local government are set to increase over the next three years. This is consistent with the expanding role of local government in creating sustainable communities and the effort by government to strengthen local municipalities' capacity to deliver. Provincial equitable shares have now been aligned to the new boundaries that took effect in March 2006.

Building a solid intergovernmental financial and fiscal relations system is important for service delivery and efficient government spending. A major area of progress and development has been National Treasury's relationship with other spheres of government. New frameworks for allocating grants to provinces and local government provide sharper definitions of the purpose and intended outputs for each grant. This increases transparency and is expected to lead to further improvements in service delivery.

At the local government level, the priority will be to reinforce budget reform and financial management. Building on the solid legal foundation of the Municipal Finance Management Act (2003) municipalities will get targeted support to improve their financial management capacity and to strengthen the link between policy, planning and budgets. The provincial and municipal revenue sharing arrangements have been reformed.

### *Financial management reform*

Cabinet approved the integrated financial management system (IFMS) master plan to continue with the IFMS project. The IFMS steering committee has granted approval for the project to proceed with the acquisition of the integrated development environment tool set and a commercial off the shelf procurement system.

National Treasury's financial accounting and reporting continues to improve. It has introduced better formats for financial reporting for national and provincial government that will align the formats of annual financial statements to the prescribed GRAP standards. National Treasury will continue to build and upgrade internal audit capacity in government. Its work will focus on implementing audit and risk management frameworks as well as providing support to the internal audit function throughout government.

### *Managing public sector debt and government assets*

Another priority for National Treasury is the prudent management of government's financial assets and liabilities, including the domestic and foreign debt portfolios. The main debt management objective remains financing borrowing requirements at the lowest cost within acceptable levels of risk. A stable macroeconomic environment and prudent cash and debt management policies have contributed to a continuing decline in the cost of servicing debt, making new resources available to promote economic development, expanded opportunities and poverty reduction.

### *Organisational environment*

The Treasury's organisational environment and strategic direction are informed by five external strategic focus areas: promoting sustainable economic growth and work opportunities, reducing poverty, ensuring good governance and accountability, promoting optimal allocation and use of financial resources in all spheres of

government, and maintaining macroeconomic stability. These are augmented by four internal strategic priorities: improving co-ordination and communication, matching resources to workloads, developing human resources strategies to address attraction and retention challenges, and developing management skills.

A major challenge has been filling vacancies and the difficulty in attracting appropriate skills to the National Treasury. The department has developed a plan to reduce its vacancy rate and has started to set up a talent pool to ensure that the services of the best possible skills are enlisted. Improving the already successful internship programme will also continue to add to the talent pool.

## Expenditure estimates

**Table 8.1 National Treasury**

Programme	Audited outcome			Adjusted appropriation	Revised estimate	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07		2007/08	2008/09	2009/10
R thousand								
1. Administration	108 266	109 406	142 953	173 392	166 596	143 732	159 113	180 418
2. Public Finance and Budget Management	76 922	98 591	121 149	165 326	130 129	172 407	166 017	173 821
3. Asset and Liability Management	51 867	26 260	30 162	59 155	45 441	57 739	60 482	62 906
4. Financial Management and Systems	234 313	226 416	239 181	363 314	227 940	722 237	824 804	828 199
5. Financial Accounting and Reporting	44 717	31 902	47 970	75 644	67 625	82 076	88 916	93 562
6. Economic Policy and International Financial Relations	29 514	37 143	52 812	75 211	61 728	86 663	79 513	82 726
7. Provincial and Local Government Transfers	3 179 488	3 865 262	3 371 613	5 623 748	5 623 748	7 159 275	8 496 707	9 846 697
8. Civil and Military Pensions, Contributions to Funds and Other Benefits	2 288 452	1 921 319	2 010 874	2 189 085	2 159 273	2 338 308	2 452 688	2 590 292
9. Fiscal Transfers	6 126 534	7 219 063	7 084 013	8 028 026	8 021 550	8 945 741	9 512 442	10 146 679
<b>Subtotal</b>	<b>12 140 073</b>	<b>13 535 362</b>	<b>13 100 727</b>	<b>16 752 901</b>	<b>16 504 030</b>	<b>19 708 178</b>	<b>21 840 682</b>	<b>24 005 300</b>
<b>Direct charge against the National Revenue Fund</b>	<b>153 851 302</b>	<b>169 735 694</b>	<b>186 203 631</b>	<b>203 341 010</b>	<b>202 930 930</b>	<b>224 187 393</b>	<b>246 440 825</b>	<b>266 699 312</b>
Provinces equitable share	107 538 362	120 884 502	135 291 632	150 752 930	150 752 930	171 271 393	193 473 825	215 784 312
State debt costs	46 312 940	48 851 192	50 911 999	52 588 080	52 178 000	52 916 000	52 967 000	50 915 000
<b>Total</b>	<b>165 991 375</b>	<b>183 271 056</b>	<b>199 304 358</b>	<b>220 093 911</b>	<b>219 434 960</b>	<b>243 895 571</b>	<b>268 281 507</b>	<b>290 704 612</b>
Change to 2006 Budget estimate				1 744 036	1 085 085	4 359 793	5 696 242	

### Economic classification

Current payments	48 094 558	50 570 433	52 779 567	54 792 957	54 140 472	55 600 869	55 837 085	53 921 232
Compensation of employees	1 386 436	1 362 273	1 456 217	1 564 213	1 505 223	1 784 224	1 878 601	1 971 833
<i>of which:</i>								
Social contributions retired employees	1 259 073	1 199 958	1 256 782	1 308 000	1 308 000	1 466 494	1 539 944	1 616 941
Goods and services	394 132	356 353	403 316	640 664	457 249	900 645	991 484	1 034 399
<i>of which:</i>								
Communication	6 851	8 611	8 013	6 571	6 571	7 808	8 401	8 878
Computer services	1 034	189 487	195 793	322 514	177 946	473 135	552 500	567 806
Consultants, contractors and special services	312 967	64 688	77 448	165 917	134 717	285 679	272 178	292 984
Inventory	8 351	16 091	15 722	16 613	16 613	13 270	14 288	15 217
Maintenance, repairs and running costs	1 222	3 101	3 127	4 910	4 910	3 318	3 557	3 752
Operating leases	12 817	15 321	1 688	19 497	19 497	24 476	26 659	29 606
Travel and subsistence	15 841	15 716	23 021	37 516	29 516	36 983	43 782	43 322
Municipal services	5 884	6 177	6 666	7 810	7 810	8 476	9 010	9 911
Interest and rent on land	46 312 940	48 851 192	50 911 999	52 588 080	52 178 000	52 916 000	52 967 000	50 915 000
Financial transactions in assets and liabilities	1 050	615	8 035	–	–	–	–	–

**Table 8.1 National Treasury (continued)**

R thousand	Audited outcome			Adjusted appropriation	Revised estimate	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07		2007/08	2008/09	2009/10
<b>Transfers and subsidies</b>	<b>117 884 359</b>	<b>132 690 639</b>	<b>146 507 258</b>	<b>165 280 679</b>	<b>165 274 213</b>	<b>188 282 812</b>	<b>212 431 630</b>	<b>236 771 287</b>
Provinces and municipalities	110 718 225	124 750 257	138 663 854	156 376 894	156 376 894	178 430 668	201 970 532	225 631 009
Departmental agencies and accounts	5 634 106	6 773 404	6 652 130	7 187 744	7 156 344	8 202 519	8 738 208	9 403 794
Universities and technikons	–	795	814	5 000	5 000	5 000	5 000	5 000
Public corporations and private enterprises	60 030	68 998	72 064	312 239	312 239	278 620	296 837	269 321
Foreign governments and international organisations	457 477	392 308	392 819	567 821	592 755	512 646	527 458	525 795
Non-profit institutions	52	56	58	62	62	65	68	71
Households	1 014 469	704 821	725 519	830 919	830 919	853 294	893 527	936 297
<b>Payments for capital assets</b>	<b>12 458</b>	<b>9 984</b>	<b>17 533</b>	<b>20 275</b>	<b>20 275</b>	<b>11 890</b>	<b>12 792</b>	<b>12 093</b>
Machinery and equipment	11 770	8 378	16 482	15 906	15 906	11 209	12 085	11 365
Software and other intangible assets	688	1 606	1 051	4 369	4 369	681	707	728
<b>Total</b>	<b>165 991 375</b>	<b>183 271 056</b>	<b>199 304 358</b>	<b>220 093 911</b>	<b>219 434 960</b>	<b>243 895 571</b>	<b>268 281 507</b>	<b>290 704 612</b>

## Expenditure trends

Most of the department's direct expenditure goes towards transfer payments. These include provincial and local government transfers, civil and military pensions payments, and transfers to the South African Revenue Service (SARS) and the Secret Services.

Between 2003/04 and 2006/07, expenditure increased from R12,1 billion to R16,8 billion at an average annual rate of 11,3 per cent. The increase went mainly towards transfers, and there were also significant increases in spending in the department's core programmes.

Expenditure is expected to increase substantially over the MTEF period, due mainly to increases in transfers to the provincial infrastructure grant, SARS, the Secret Services, the Development Bank of Southern Africa, and the Investment Climate Facility. Expenditure is expected to reach R24 billion in 2009/10 at an average annual rate of 12,7 per cent. Much of the future increase will go towards provincial and local government transfers.

Included in the additional allocations of the 2007 Budget are: R840 million in 2007/08, R1,2 billion in 2008/09 and R2,3 billion in 2009/10 for the provincial infrastructure grant; R274 million in 2007/08, R423 million in 2008/09 and R620 million in 2009/10 for the South African Revenue Service; R250 million in 2007/08, R200 million in 2008/09 and R200 million in 2009/10 for the Secret Services; and R225 million in 2007/08, R247 million in 2008/09 and R269 million in 2009/010 for the Development Bank of Southern Africa for the Siyenza Manje initiative.

The *Economic Planning and Budget Management* programme as reported in the 2006 Estimates of National Expenditure has now been separated into two programmes: *Public Finance and Budget Management* and *Economic Policy and International Financial Relations*.

### *Direct charge against the National Revenue Fund*

The department is responsible for the main statutory transfers to provincial governments. More information on these transfers can be found in chapter 7 and annexure E of the 2007 Budget Review and the 2007 Division of Revenue Bill. In addition, the National Treasury vote includes a provision for servicing government's debt obligations, which are a direct charge against the National Revenue Fund in terms of section 73 of the Public Finance Management Act (1999) (PFMA). In 2006/07, expenditure on state debt costs will be R410,1 million lower than indicated in the 2006 Adjusted Estimates, mainly due to a lower borrowing requirement.

## Departmental receipts

The main item of revenue is the interest on government deposits and dividends received from the South African Reserve Bank. Over the medium term, revenue is expected to increase from R3,5 billion in 2007/08 to R4,2 billion in 2009/10. Interest on exchequer investments is affected by domestic and international interest rates, exchange rates and the level of government's cash balances.

**Table 8.2 Departmental receipts**

R thousand	Audited outcome			Adjusted appropriation	Medium-term receipts estimate		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Departmental receipts</b>	<b>2 131 387</b>	<b>1 941 457</b>	<b>5 170 026</b>	<b>3 486 659</b>	<b>4 634 324</b>	<b>4 608 819</b>	<b>4 165 589</b>
Sales of goods and services produced by department	12 295	43 916	51 125	41 552	45 707	48 509	51 483
Sales of scrap, waste and other used current goods	–	–	5	–	–	–	–
Fines, penalties and forfeits	100 000	150 000	2 650 000	675	742	787	835
Interest, dividends and rent on land	2 009 569	1 742 186	2 428 979	3 420 000	4 561 000	4 531 000	4 083 000
Sales of capital assets	–	307	–	–	–	–	–
Financial transactions in assets and liabilities	9 523	5 048	39 917	24 432	26 875	28 523	30 271
<b>Total</b>	<b>2 131 387</b>	<b>1 941 457</b>	<b>5 170 026</b>	<b>3 486 659</b>	<b>4 634 324</b>	<b>4 608 819</b>	<b>4 165 589</b>

## Programme 1: Administration

*Administration* provides strategic management and administrative support to National Treasury, giving managerial leadership to the work of the department.

### Expenditure estimates

**Table 8.3 Administration**

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R thousand							
Minister <sup>1</sup>	747	791	833	885	938	985	1 034
Deputy Minister <sup>2</sup>	552	625	677	719	762	801	841
Management	12 898	14 196	21 143	37 824	29 134	29 247	29 298
Corporate Services	54 143	56 268	67 065	94 567	78 953	88 990	103 448
Property Management	39 926	37 526	53 235	39 397	33 945	39 090	45 797
<b>Total</b>	<b>108 266</b>	<b>109 406</b>	<b>142 953</b>	<b>173 392</b>	<b>143 732</b>	<b>159 113</b>	<b>180 418</b>
Change to 2006 Budget estimate				38 030	2 000	4 000	

1. Payable as from 1 April 2006. Salary: R 707 956. Car allowance: R 176 988.

2. Payable as from 1 April 2006. Salary: R 575 410. Car allowance: R 143 852.

### Economic classification

	94 707	104 983	131 100	163 172	139 519	154 471	176 264
<b>Current payments</b>							
Compensation of employees	31 174	36 884	42 171	58 037	67 647	73 240	77 412
Goods and services	63 046	68 092	88 702	105 135	71 872	81 231	98 852
<i>of which:</i>							
Communication	3 937	6 374	5 993	4 393	5 755	6 148	6 531
Computer services	707	3 509	6 673	15 824	3 759	3 989	4 169
Consultants, contractors and special services	23 090	12 162	17 021	19 219	11 569	12 278	12 731
Inventory	2 374	3 125	6 803	5 642	3 246	3 445	3 739
Maintenance, repairs and running costs	1 031	1 877	1 858	4 207	2 057	2 183	2 281
Operating leases	11 711	14 163	569	17 460	18 345	19 901	22 404
Travel and subsistence	4 414	4 402	6 518	9 881	12 085	12 828	10 894
Municipal services	5 884	6 177	6 666	7 810	8 476	9 010	9 911
Financial transactions in assets and liabilities	487	7	227	–	–	–	–

Table 8.3 Administration (continued)

R thousand	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Transfers and subsidies</b>	<b>4 717</b>	<b>278</b>	<b>318</b>	<b>703</b>	<b>826</b>	<b>1 048</b>	<b>1 269</b>
Provinces and municipalities	92	112	130	45	–	–	–
Departmental agencies and accounts	118	166	164	210	200	220	240
Public corporations and private enterprises	–	–	24	24	26	28	29
Households	4 507	–	–	424	600	800	1 000
<b>Payments for capital assets</b>	<b>8 842</b>	<b>4 145</b>	<b>11 535</b>	<b>9 517</b>	<b>3 387</b>	<b>3 594</b>	<b>2 885</b>
Machinery and equipment	8 378	2 804	10 632	5 537	3 087	3 276	2 535
Software and other intangible assets	464	1 341	903	3 980	300	318	350
<b>Total</b>	<b>108 266</b>	<b>109 406</b>	<b>142 953</b>	<b>173 392</b>	<b>143 732</b>	<b>159 113</b>	<b>180 418</b>

## Details of major transfers and subsidies:

Departmental agencies and accounts							
<b>Current</b>	<b>118</b>	<b>166</b>	<b>164</b>	<b>210</b>	<b>200</b>	<b>220</b>	<b>240</b>
Finance, Accounting, Management, Consulting and other Financial Services (Fasset) Sector Education and Training Authority	118	166	164	210	200	220	240

## Expenditure trends

Expenditure between 2003/04 and 2005/06 increased from R108,3 million to R143 million, mainly due to the refurbishment of office accommodation. In 2006/07 expenditure increased by 21,3 per cent compared to the previous year, reaching R173,4 million, due to the implementation of the document management system project, the accommodation optimisation plan, increased legal costs, business process mapping and more use of IT consultants.

There will be a moderate increase in expenditure over the MTEF period, from R173,4 million in 2006/07 to R180,4 million in 2009/10, at an average annual increase of 1,3 per cent. The increase is due to capacity building in the *Corporate Services* subprogramme and talent management pool interventions.

## Programme 2: Public Finance and Budget Management

The *Public Finance and Budget Management* programme provides for professional advice and support to the Minister of Finance on fiscal and public finance matters, and serves as the co-ordination hub for the preparation of the annual budget and liaison with other government departments and agencies, provinces and municipalities.

There are four subprogrammes:

- *Public Finance* provides financial and budgetary analysis of government programmes, advises on policy and service delivery trends and manages National Treasury's relations with other national departments.
- *Budget Office* provides fiscal policy advice, oversees expenditure planning and the national budget process, leads the budget reform programme, co-ordinates international technical assistance and donor finance, supports PPPs, and compiles public finance statistics.
- *Intergovernmental Relations* co-ordinates fiscal relations between national, provincial and local government, and promotes sound provincial and municipal budgetary planning, reporting and financial management.
- *Technical and Management Support* includes advisory and capacity building initiatives focused on public-private partnerships, project management, infrastructure service delivery and public finance information systems. A dedicated unit has been established to support budgetary planning related to the 2010 FIFA World Cup.

## Expenditure estimates

**Table 8.4 Public Finance and Budget Management**

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R thousand							
Public Finance	19 232	25 584	27 239	27 736	30 547	31 729	33 510
Budget Office	16 470	21 983	26 790	37 330	33 320	36 997	37 910
Intergovernmental Relations	19 689	24 034	42 447	29 684	37 827	42 947	44 388
Technical and Management Support	21 531	26 990	24 673	70 576	70 713	54 344	58 013
<b>Total</b>	<b>76 922</b>	<b>98 591</b>	<b>121 149</b>	<b>165 326</b>	<b>172 407</b>	<b>166 017</b>	<b>173 821</b>
Change to 2006 Budget estimate				2 141	-	-	

**Economic classification**

<b>Current payments</b>	<b>69 643</b>	<b>90 445</b>	<b>113 155</b>	<b>156 744</b>	<b>165 263</b>	<b>158 852</b>	<b>166 348</b>
Compensation of employees	40 742	52 260	64 986	77 678	107 365	115 133	120 107
Goods and services	28 896	38 182	48 161	79 066	57 898	43 719	46 241
<i>of which:</i>							
Communication	657	357	418	591	550	579	564
Consultants, contractors and special services	16 367	21 257	28 018	53 779	38 722	25 177	25 808
Inventory	3 430	5 977	6 009	6 982	4 289	4 649	4 850
Maintenance, repairs and running costs	67	87	157	197	211	228	257
Operating leases	200	238	334	544	635	769	835
Travel and subsistence	5 011	4 192	6 236	7 895	5 785	9 464	10 149
Financial transactions in assets and liabilities	5	3	8	-	-	-	-
<b>Transfers and subsidies</b>	<b>6 395</b>	<b>6 159</b>	<b>6 699</b>	<b>6 571</b>	<b>6 000</b>	<b>6 000</b>	<b>6 000</b>
Provinces and municipalities	124	159	199	71	-	-	-
Departmental agencies and accounts	6 000	6 000	6 000	6 000	6 000	6 000	6 000
Public corporations and private enterprises	200	-	500	500	-	-	-
Households	71	-	-	-	-	-	-
<b>Payments for capital assets</b>	<b>884</b>	<b>1 987</b>	<b>1 295</b>	<b>2 011</b>	<b>1 144</b>	<b>1 165</b>	<b>1 473</b>
Machinery and equipment	875	1 899	1 260	1 987	1 085	1 102	1 431
Software and other intangible assets	9	88	35	24	59	63	42
<b>Total</b>	<b>76 922</b>	<b>98 591</b>	<b>121 149</b>	<b>165 326</b>	<b>172 407</b>	<b>166 017</b>	<b>173 821</b>

**Details of major transfers and subsidies:**

<b>Departmental agencies and accounts</b>							
<b>Current</b>	<b>6 000</b>						
Project development facility trading account	6 000	6 000	6 000	6 000	6 000	6 000	6 000
<b>Private enterprises</b>							
<b>Other transfers</b>							
<b>Current</b>	<b>200</b>	<b>-</b>	<b>500</b>	<b>500</b>	<b>-</b>	<b>-</b>	<b>-</b>
Finmark Trust	200	-	-	-	-	-	-
Centre for Development and Enterprise	-	-	500	500	-	-	-

**Expenditure trends**

Expenditure in this programme has doubled from R76,9 million in 2003/04 to R165,3 million in 2006/07, at an average annual rate of 29,1 per cent. This was mainly due to increases in professional and advisory capacity, the phasing in of the infrastructure delivery improvement programme (IDIP), an expanding portfolio of technical assistance projects and a bigger workload in relation to public-private partnerships.

Programme expenditure for the MTEF period will stabilise, with an average annual increase of 1,7 per cent due to the phasing out of the IDIP by 2009/10.

## Service delivery objectives and indicators

### Recent outputs

Much of the work of the public finance division involves assessing budget proposals and reviewing spending and service delivery trends. Recent focus areas have included policy and practice related to official accommodation in various departments, human resource needs in justice and protection service departments, financial arrangements for social grants and social welfare services, devolution of budget allocations for departmental accommodation, and funding industrial development zones and other infrastructure initiatives.

The Budget Review, Estimates of National Expenditure, the Medium Term Budget Policy Statement and other budget documentation and public finance statistics are prepared and co-ordinated by the budget office. Other outputs include: advice on public-private partnership transactions and commitment of over R12 million in transaction advisory support through the PPP project development facility; a research programme on pro-poor budget programmes; participation in the Collaborative Africa Budget Reform Initiative and organising 10 to 15 annual consultations with official development assistance partner countries or multilateral bodies.

In 2005/06 the intergovernmental relations division stepped up its targeted initiatives to municipalities for the implementation of the Municipal Finance Management Act (2003) (MFMA). Twenty-two advisors with expertise in financial management were deployed to 25 municipalities to support them with the preparation of budget and reports. The division was responsible for monitoring all provincial and local government budgets.

The technical assistance unit supported 51 projects in 2005/06 as part of its project management support function. The infrastructure development improvement programme has gained momentum, focusing on provincial schools building and roads projects. Preparatory work for the Gautrain Rapid Rail Link PPP has been completed and the first round of project applications for the neighbourhood development partnership grant was assessed in 2006.

### Selected medium-term output targets

#### Public Finance and Budget Management

**Measurable objective:** Promote growth, social development and poverty reduction through sound fiscal and financial policies, and the effective, efficient and appropriate allocation of public funds.

Subprogramme	Output	Measure/indicator	Target
Public Finance	Sectoral and departmental policy advice	Timely and relevant analysis and advice	Review of budget submissions and preparation of estimates to meet budget process deadlines In-depth assessment of programmes and sectoral trends – 5-10 review projects annually
	Expenditure analysis	Quality of expenditure estimates	Enhancement of in-year expenditure monitoring and performance information systems over medium term and continued phasing in of consolidated departmental and agency estimates and expenditure reports
	Oversight of 2010 FIFA World Cup funding	Compliance with financial management legislation, practices and procedures	31 March 2008
Budget Office	Annual budget framework and division of revenue	Integrity of budget framework: fiscal sustainability, structure and trends in fiscal indicators	Moderate budget deficit and sound fiscal framework
	Budget Review, Estimates of National Expenditure, appropriation legislation, treasury guidelines and public finance statistics	Quality of budget documentation	Timely publication, accuracy of scope and quality of content
	Expenditure planning and budget process management	Departmental and agency spending plans and submissions to ministers committee on the budget	Improved performance information as part of expenditure planning; improved infrastructure planning and project evaluation
	International co-operation agreements	Alignment of official development assistance (ODA) with government priorities	Improved co-ordination between ODA planning and budget process in the medium term

Subprogramme	Output	Measure/indicator	Target
Intergovernmental Relations	Support for provincial and municipal development	Number of provinces and municipalities in which financial management programmes and reforms are being implemented in terms of the PFMA and MFMA Timelines and accuracy of information	9 provincial treasuries and 157 high- and medium-capacity municipalities over the medium term
	Section 32 quarterly reports on spending trends	Published reviews of provincial and municipal budgets and expenditure	Accurate quarterly reports on provincial budget implementation Enhanced scope of financial and non-financial service delivery information
Technical and Management Support	BEE participation in PPPs	Improve BEE participation in PPPs through alignment of PPP BEE code with the DTI codes	Gazetting of PPP BEE codes with DTI
	PPP programme and projects	Improve the PPP project pipeline through registration of additional projects and better technical assistance	Improved quality and flow of projects, streamlined PPP advisory service, use of project development facility and neighbourhood development partnership grant. Provide technical assistance to 30 new municipal projects to access the neighbourhood development partnership grant. Also to provide technical assistance for 10 additional national and provincial PPPs. Register 7 new municipal PPP projects. Reach financial closure for 6 new PPPs.
	Facilitate the development of PPPs for municipal services	Identify the PPP project flow in the municipal sphere for basic services in water reticulation and solid waste management	Publication of PPP municipal guidelines to assist municipalities with the implementation of new projects

### Programme 3: Asset and Liability Management

The *Asset and Liability Management* programme manages government's financial asset and liability portfolio in a way that ensures prudent cash management, asset restructuring, financial management and optimal management of government's domestic and foreign debt portfolio.

Apart from *Management*, there are four subprogrammes:

- *Asset Management* promotes the optimal allocation and use of financial resources and sound corporate governance in government business enterprises.
- *Liability Management* provides for government's liquidity needs, manages domestic and foreign debt, and contributes to the development of domestic capital markets and timeous servicing of debt.
- *Financial Operations* provides for the prudent management of cash in all spheres of government, efficient accounting of debt and investment transactions, the supply of reliable systems and the provision of quality information.
- *Strategy and Risk Management* develops and maintains a government wide risk management framework and ensures that the division's strategies are in line with the agreed framework.

### Expenditure estimates

Table 8.5 Asset and Liability Management

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R thousand							
Management	31 143	3 008	3 961	21 256	23 298	23 947	23 506
Asset Management	4 934	5 634	6 017	12 928	8 274	8 750	9 154
Liability Management	6 007	7 466	7 947	10 611	11 210	11 854	12 478
Financial Operations	7 563	7 073	7 172	8 775	8 903	9 506	11 098
Strategy and Risk Management	2 220	3 079	5 065	5 585	6 054	6 425	6 670
<b>Total</b>	<b>51 867</b>	<b>26 260</b>	<b>30 162</b>	<b>59 155</b>	<b>57 739</b>	<b>60 482</b>	<b>62 906</b>
Change to 2006 Budget estimate				13 681	10 000	10 000	

Table 8.5 Asset and Liability Management (continued)

R thousand	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Economic classification</b>							
<b>Current payments</b>	<b>50 750</b>	<b>25 326</b>	<b>29 255</b>	<b>58 025</b>	<b>57 207</b>	<b>59 917</b>	<b>62 304</b>
Compensation of employees	13 789	17 658	21 865	28 167	35 633	37 785	39 353
Goods and services	36 958	7 668	7 389	29 858	21 574	22 132	22 951
<i>of which:</i>							
<i>Communication</i>	419	129	272	371	335	368	390
<i>Computer services</i>	139	2 724	1 827	9 234	2 778	2 459	3 245
<i>Consultants, contractors and special services</i>	32 609	120	536	10 687	12 628	11 945	12 955
<i>Inventory</i>	365	415	315	661	670	724	785
<i>Operating leases</i>	139	42	106	885	229	330	345
<i>Travel and subsistence</i>	1 134	858	1 650	2 904	2 930	2 990	3 032
Financial transactions in assets and liabilities	3	–	1	–	–	–	–
<b>Transfers and subsidies</b>	<b>186</b>	<b>54</b>	<b>66</b>	<b>24</b>	<b>–</b>	<b>–</b>	<b>–</b>
Provinces and municipalities	41	54	66	24	–	–	–
Households	145	–	–	–	–	–	–
<b>Payments for capital assets</b>	<b>931</b>	<b>880</b>	<b>841</b>	<b>1 106</b>	<b>532</b>	<b>565</b>	<b>602</b>
Machinery and equipment	725	869	826	1 106	532	565	602
Software and other intangible assets	206	11	15	–	–	–	–
<b>Total</b>	<b>51 867</b>	<b>26 260</b>	<b>30 162</b>	<b>59 155</b>	<b>57 739</b>	<b>60 482</b>	<b>62 906</b>

### Expenditure trends

Expenditure in 2003/04 included a once-off payment of R27 million for a legal settlement. If this payment is excluded, expenditure increased between 2003/04 and 2005/06 from R24,9 million to R30,2 million due to the restructuring of the programme.

In 2006/07, the programme's budget increased to R59,2 million because of a number of special projects, such as the review of state owned enterprises' treasury operations, the review of mandates of development finance institutions, and the development of internal systems that address the needs of the programme.

Expenditure over the MTEF period is expected to increase, from R59,2 million in 2006/07 to R62,9 million in 2009/10, at an average annual rate of 2,1 per cent. The increase is due to the completion of internal system developments.

### Service delivery objectives and indicators

#### Recent outputs

Government's borrowing requirements were met through prudent debt, cash and risk management strategies. These strategies also contributed to lowering government debt and the cost of servicing debt. In addition, R&I Information Rating Agency upgraded the sovereign credit rating to A-, making South Africa one of a few emerging countries with an A rating. The upgrade translates into a lower risk premium on South African assets and further reduces borrowing costs.

Assistance to the South African Reserve Bank to increase the level of official reserves continued. The higher level of reserves has led to higher domestic and international confidence in macroeconomic policy and has reduced external vulnerability.

With the widened role of risk management, government now takes a holistic view of all financial risks (explicit and implicit). Over and above setting parameters for funding requirements such as a mix between foreign and

domestic funding, determining an optimal debt maturity profile and setting limits for counterparties, risk management has sought to integrate the reporting of these aspects to provide a summary of risk exposures.

The emphasis is still on improving financial performance, increasing levels of operational efficiency and cost-effective service provision by the state owned entities (SOEs). Good progress has been made with initiatives to improve entities' financial performance, such as an assessment of treasury operations of SOEs, a review of the mandates of development finance institutions, and an evaluation of policies concerning financial distribution and capital stakeholders.

## Selected medium-term output targets

### Asset and Liability Management

**Measurable objective:** Manage government's asset and liability portfolio in a way that ensures prudent cash management, asset restructuring, financial management and optimal management of government's domestic and foreign debt portfolio.

Subprogramme	Output	Measure/indicator	Target
Asset Management	Report presented on the review of mandates of development finance institutions (DFIs)	Percentage of DFIs reviewed	55 % by 31 March 2008
	Report presented on the review of state owned enterprises' (SOEs) treasury operations	Percentage of SOEs reviewed	100% by 31 March 2008
Liability Management	Financing of government's net borrowing requirements	Annual total government borrowing needs fully met	Gross issuance of R28,4 billion by 31 March 2008
	Reduction in debt service cost	Debt service cost declines as percentage of GDP	2,8% of GDP by 31 March 2008
Financial Operations	Sound cash flow forecasts	Government's liquidity requirements met every time	Forecasting of R1,2 trillion of cash flows by 31 March 2008
Strategy and Risk Management	Minimising and mitigating risks emanating from government debt portfolio (market risk)	Performance against benchmarks: Floating vs fixed debt Foreign debt vs domestic debt	Review of benchmark and implement by 31 March 2008
	Minimising and mitigating counterparty risks emanating from the investment of surplus cash	Setting of surplus cash benchmark investment ratios with 4 commercial banks	Quarterly reviewing of limits

## Programme 4: Financial Management and Systems

The *Financial Management and Systems* programme manages and regulates government's supply chain processes, implements and maintains standardised financial systems and co-ordinates the implementation of the PFMA and related capacity building initiatives.

Apart from *Management*, there are three subprogrammes:

- *Supply Chain Management* develops policy that regulates the supply chain processes in the public sector, monitors policy outcomes, and facilitates and manages transversal term contracts on behalf of government.
- *PFMA Implementation and Co-ordination* provides for National Treasury's monitoring role in the implementation of the PFMA and related training initiatives.
- *Financial Systems* is responsible for maintaining and improving existing financial management systems, and replacing outdated systems with those that comply with the PFMA and GRAP.

## Expenditure estimates

**Table 8.6 Financial Management and Systems**

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R thousand							
Management	1 080	1 151	1 116	1 554	1 413	1 514	1 582
Supply Chain Management	19 392	30 567	27 780	37 558	30 955	32 914	32 782
PFMA Implementation and Co-ordination	10 347	5 250	13 325	12 180	15 895	16 809	16 957
Financial Systems	203 494	189 448	196 960	312 022	673 974	773 567	776 878
Operational costs	18 935	26 033	12 979	17 790	40 453	42 772	44 980
Basic accounting system (BAS)	64 561	59 183	55 766	60 357	81 563	86 214	91 155
PERSAL	44 256	39 259	38 986	50 309	58 190	60 931	60 790
Logis	37 280	34 226	40 497	48 909	47 855	51 113	54 506
Vulindlela	16 953	20 641	18 971	24 598	25 320	26 529	25 787
Financial management system (FMS)	10 934	4 965	–	–	–	–	–
Integrated financial management system (IFMS)	10 575	5 141	29 761	110 059	420 593	506 008	499 660
<b>Total</b>	<b>234 313</b>	<b>226 416</b>	<b>239 181</b>	<b>363 314</b>	<b>722 237</b>	<b>824 804</b>	<b>828 199</b>
Change to 2006 Budget estimate				(196 484)	(3 150)	(3 150)	

### Economic classification

<b>Current payments</b>	<b>233 361</b>	<b>225 354</b>	<b>236 335</b>	<b>359 756</b>	<b>718 715</b>	<b>821 066</b>	<b>824 462</b>
Compensation of employees	20 289	23 487	28 141	38 533	44 700	47 053	49 351
Goods and services	213 071	201 867	208 185	321 223	674 015	774 013	775 111
of which:							
Communication	1 361	1 306	981	617	411	443	462
Computer services	–	182 529	186 489	296 324	464 019	543 019	557 055
Consultants, contractors and special services	206 454	6 145	650	530	176 618	185 436	185 436
Inventory	701	3 882	641	1 341	2 187	2 347	2 441
Operating leases	599	569	357	382	5 087	5 458	5 812
Travel and subsistence	1 503	1 211	1 283	4 000	1 674	1 737	1 802
Financial transactions in assets and liabilities	1	–	9	–	–	–	–
<b>Transfers and subsidies</b>	<b>54</b>	<b>71</b>	<b>87</b>	<b>32</b>	<b>–</b>	<b>–</b>	<b>–</b>
Provinces and municipalities	54	71	87	32	–	–	–
<b>Payments for capital assets</b>	<b>898</b>	<b>991</b>	<b>2 759</b>	<b>3 526</b>	<b>3 522</b>	<b>3 738</b>	<b>3 737</b>
Machinery and equipment	897	834	2 661	3 193	3 230	3 443	3 432
Software and other intangible assets	1	157	98	333	292	295	305
<b>Total</b>	<b>234 313</b>	<b>226 416</b>	<b>239 181</b>	<b>363 314</b>	<b>722 237</b>	<b>824 804</b>	<b>828 199</b>

### Expenditure trends

A decrease in expenditure of 3,4 per cent from 2003/04 to 2004/05 was because of the delayed development and implementation of the integrated financial management system (IFMS). The sharp increase in expenditure of 51,9 per cent in 2006/07 compared to the previous year was due to the continuous work on other systems such as the basic accounting system (BAS), Logis and PERSAL. In the subsequent years between 2006/07 and 2009/10, expenditure is expected to increase rapidly from R363,3 million to R828,2 million, at an average annual rate of 31,6 per cent, due to the implementation of the IFMS.

## Service delivery objectives and indicators

### Recent outputs

The prescribed supply chain management (SCM) framework has been implemented by all municipalities and municipal entities. To assist municipalities with their implementation, a generic supply chain policy document, a SCM guide for accounting officers, municipal bidding documents and a SCM implementation checklist were issued. Training and assistance to supply chain management practitioners at municipalities and municipal entities are provided on an ongoing basis.

The supply chain management office (SCMO) is responsible for facilitating and administering transversal term contracts on behalf of government departments. In 2006, the SCMO improved the average turnaround time for the facilitation and arranging of certain transversal term contracts by 30,4 per cent in the first quarter and 39,1 per cent in the second quarter (average 35 per cent).

The benefits of applying strategic sourcing principles to identified transversal term contracts arranged by the Treasury ranged from recurring annual and once-off cost reductions, to operational improvements throughout the supply chain. The implementation of the sourcing strategies on the vehicle fleet management contracts resulted in a potential annual saving of R31 million.

In relation to implementing and co-ordinating the PFMA, National Treasury engaged external training service providers to help with training for supply chain management and as at the end of the second quarter, 1 282 trainees benefited from the rollout of 55 supply chain management courses.

### Selected medium-term output targets

#### Financial Management and Systems

**Measurable objective:** Regulate and oversee public sector supply chain management and standardise financial systems of national and provincial government, while co-ordinating the implementation of the PFMA.

Subprogramme	Output	Measure/Indicator	Target
Supply Chain Management	Supply chain management policy in government regulated and monitored	Implement consistent legislative and policy framework	First and last quarters of 2007
	Arrangement of general transversal contracts facilitated on behalf of government	Reduced turnaround time	Reduce average turnaround time from 5 months to 3 months
PFMA Implementation and Co-ordination	Co-ordination of Implementation of PFMA and related training initiatives Monitoring compliance of PFMA provisions	Report to Portfolio Committee on Finance and Standing Committee on Public Accounts (SCOPA) on progress with PFMA implementation	July 2007
		Number of courses to be presented to trainees to assist with the implementation of financial reforms <ul style="list-style-type: none"> <li>• Supply chain management</li> <li>• Internal audit and risk management</li> <li>• Accounting related courses</li> </ul> Submit PFMA Amendment Bill to Parliament	445 courses – 8 900 trainees 100 courses – 2 288 trainees 253 courses – 5 434 trainees October 2007
Financial Systems	Financial management systems implemented, maintained and improved	Percentage of availability and stability of financial systems within working hours	System 98% available during office hours
		Phased implementation of integrated financial management system	Half-yearly progress reports to Cabinet

## Programme 5: Financial Accounting and Reporting

*Financial Accounting and Reporting* seeks to achieve accountability to the general public by promoting transparency and effectiveness in the delivery of public services, especially in the management of revenue, expenditure, assets and liabilities. It sets new, and improves existing, government accounting policies and practices to ensure compliance with the standards of GRAP, prepares consolidated financial statements, and aims to make financial reporting more accurate and efficient. It also aims to improve transparency and effectiveness through improved governance and oversight.

There are six subprogrammes:

- *Financial Reporting for National Accounts* is responsible for accounting for the National Revenue Fund and the RDP Fund, banking services for national government, providing support to all spheres of government in implementing financial reporting frameworks, and preparing consolidated financial statements.
- *Financial Management Improvement* includes improving financial management, developing the reporting frameworks in line with international and local best practice, developing and implementing accounting policies, and improving the financial management and internal audit capacity within government.
- *Investment of Public Monies* accommodates augmentation of the Public Investment Corporation's bank account.
- *Service Charges (Commercial Banks)* provides for bank service charges for all departments' deposit accounts.
- *Audit Statutory Bodies* provides for compensation for certain shortfalls of statutory bodies and municipalities in terms of the Auditor-General Act (1995).
- *Contingent Liabilities: Reinsurance Liabilities* provides for reinsurance granted to insurers arising from loss or damage to property, funds payments or consequential loss as a result of riots in terms of the Reinsurance of Damages and Losses Act (1989), and grants loans and advances to such insurers in terms of the act.

## Expenditure estimates

**Table 8.7 Financial Accounting and Reporting**

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R thousand							
Financial Reporting for National Accounts	23 445	19 651	28 302	47 577	52 256	56 693	59 820
Financial Management Improvement	2 453	4 424	6 060	12 799	14 018	15 676	16 368
Investment of Public Monies	–	–	–	1	1	1	1
Service Charges (Commercial Banks)	7 624	160	17	166	–	–	–
Audit Statutory Bodies	11 195	7 667	13 591	15 100	15 800	16 545	17 372
Contingent Liabilities: Reinsurance Liabilities	–	–	–	1	1	1	1
<b>Total</b>	<b>44 717</b>	<b>31 902</b>	<b>47 970</b>	<b>75 644</b>	<b>82 076</b>	<b>88 916</b>	<b>93 562</b>
Change to 2006 Budget estimate				(11 040)	(10 000)	(10 000)	
<b>Economic classification</b>							
<b>Current payments</b>	<b>29 230</b>	<b>23 106</b>	<b>29 129</b>	<b>41 560</b>	<b>41 014</b>	<b>45 682</b>	<b>48 589</b>
Compensation of employees	3 933	10 644	17 353	20 284	22 991	24 209	25 499
Goods and services	25 297	12 462	11 776	21 276	18 023	21 473	23 090
<i>of which:</i>							
<i>Communication</i>	180	107	137	331	455	527	582
<i>Computer services</i>	–	541	530	713	2 042	2 461	2 694
<i>Consultants, contractors and special services</i>	16 069	7 117	2 421	8 609	2 919	3 098	3 237
<i>Inventory</i>	413	418	959	1 222	1 250	1 435	1 630
<i>Operating leases</i>	23	37	61	82	44	59	62
<i>Travel and subsistence</i>	243	1 385	2 078	6 144	7 103	9 038	9 355
<b>Transfers and subsidies</b>	<b>15 066</b>	<b>7 969</b>	<b>18 376</b>	<b>30 759</b>	<b>38 390</b>	<b>40 224</b>	<b>42 199</b>
Provinces and municipalities	12	32	52	17	–	–	–
Departmental agencies and accounts	15 037	7 937	18 324	30 742	38 390	40 224	42 199
Households	17	–	–	–	–	–	–
<b>Payments for capital assets</b>	<b>421</b>	<b>827</b>	<b>465</b>	<b>3 325</b>	<b>2 672</b>	<b>3 010</b>	<b>2 774</b>
Machinery and equipment	421	827	465	3 325	2 672	3 010	2 774
<b>Total</b>	<b>44 717</b>	<b>31 902</b>	<b>47 970</b>	<b>75 644</b>	<b>82 076</b>	<b>88 916</b>	<b>93 562</b>

**Table 8.7 Financial Accounting and Reporting (continued)**

R thousand	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Details of major transfers and subsidies:</b>							
<b>Departmental agencies and accounts</b>							
<b>Current</b>	<b>14 787</b>	<b>7 937</b>	<b>18 324</b>	<b>30 742</b>	<b>38 390</b>	<b>40 224</b>	<b>42 199</b>
Accounting Standards Board	3 592	270	4 733	4 759	5 493	5 727	5 978
Audit (auditor-general)	11 195	7 667	13 591	15 102	15 802	16 547	17 374
Independent Regulatory Board for Auditors	–	–	–	10 881	17 095	17 950	18 847
<b>Capital</b>	<b>250</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Accounting Standards Board	250	–	–	–	–	–	–

### Expenditure trends

Expenditure has increased from R44,7 million in 2003/04 to R75,6 million in 2006/07, at an average annual rate of 19,2 per cent, mainly due to the introduction of a transfer payment to the Independent Regulatory Board of Auditors (IRBA). Expenditure is expected to increase at an average annual rate of 7,3 per cent over the MTEF period, from R75,6 million in 2006/07 to R93,6 million in 2009/10, due to higher expenditure on the IRBA, consultancy fees, the public audit forum and skills assessment.

### Service delivery objectives and indicators

#### Recent outputs

Regarding financial reporting for national accounts, in the past year there has been a constant improvement in the consolidation of government statements. The consolidated accounts were audited and tabled in line with the PFMA, and tabled before the audit committee of National Treasury, thus improving oversight. The two accounting bases applicable in the public sector, cash and accrual, remain a significant challenge to the consolidation process and improving the quality of the report. The fraud detection capability of government has also been improved.

In relation to improving financial management, the reporting framework has been updated with prescribed standards and practice notes issued by the Accounting Standards Board. The further development of the reporting framework has also benefited from improved processes for stakeholder involvement.

#### Selected medium-term output targets

##### Financial Accounting and Reporting

**Measurable objective:** Achieve accountability to the general public by promoting transparency and effective management in relation to revenue, expenditure, and assets and liabilities in South Africa's public sector.

Subprogramme	Output	Measure/Indicator	Target
Financial Reporting for National Accounts	Monthly statement of National Revenue Fund actual revenue and expenditure Consolidated annual financial statements for national government	Timely publishing of accurate reports	Within 30 days after month end
		Accurate and timely audited consolidated annual financial statements for national government	31 October 2007
Financial Management Improvement	Annual financial reporting framework in line with financial management improvement plan Service delivery capability of audit committees and internal auditors improved Quality assessment reviews (QARs)	Reporting framework document for departments, and consolidation template for public entities	31 March 2008
		Facilitate the development of relevant training programmes on internal audit, focussing on performance and operational audits	30 September 2007
		Facilitate external QARs for national and provincial departments qualifying for such reviews in terms of the standards issued by the Institute of Internal Auditors (IIA)	31 March 2008 – 10 qualifying departments

## Programme 6: Economic Policy and International Financial Relations

The *Economic Policy and International Financial Relations* programme provides specialist policy analysis and advisory services in the areas of macroeconomics, microeconomics, regulatory reform, tax policy, financial and banking sector policy, and regional integration and international financial relations.

There are five subprogrammes:

- *Management and Research* funds the department's economic research programme, including promoting the research capacity of local academic researchers.
- *Financial Sector Policy* provides policy advice on financial sector issues and is responsible for financial sector legislation and regulations. Key strategic focus areas include retirement reform, financial stability and financial sector transformation.
- *Tax Policy* provides advice on the formulation of tax policy. It is also responsible for drafting tax legislation, tax revenue analysis and forecasting.
- *International Economics* focuses on improving South Africa's participation in international economic institutions and debates. It also facilitates the deepening of South Africa's role in regional integration (South African Development Community and the Southern African Customs Union) and promoting the African Development Bank and NEPAD economic objectives.
- *Economic Policy* provides macroeconomic, microeconomic, forecasting and regulatory technical and policy analysis for the annual budget and other government processes, as well as policy review.

## Expenditure estimates

**Table 8.8 Economic Policy and International Financial Relations**

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R thousand							
Management and Research	2 178	2 135	4 045	16 183	11 681	9 266	9 472
Financial Sector Policy	6 876	12 114	19 248	14 584	18 238	20 058	20 961
Tax Policy	6 897	7 665	7 770	12 050	14 231	14 525	15 254
International Economics	7 826	8 031	9 209	11 119	15 434	16 771	17 552
Economic Policy	5 737	7 198	12 540	21 275	27 079	18 893	19 487
<b>Total</b>	<b>29 514</b>	<b>37 143</b>	<b>52 812</b>	<b>75 211</b>	<b>86 663</b>	<b>79 513</b>	<b>82 726</b>
Change to 2006 Budget estimate				(8 260)	–	–	
<b>Economic classification</b>							
<b>Current payments</b>	<b>27 980</b>	<b>35 129</b>	<b>45 985</b>	<b>69 394</b>	<b>81 030</b>	<b>73 793</b>	<b>77 104</b>
Compensation of employees	17 436	21 382	24 919	33 514	39 394	41 237	43 170
Goods and services	10 544	13 746	21 064	35 880	41 636	32 556	33 934
<i>of which:</i>							
Communication	297	338	212	268	302	336	349
Computer services	188	94	127	118	136	142	147
Consultants, contractors and special services	2 058	3 551	10 763	24 867	27 596	17 884	18 597
Inventory	1 068	2 274	995	765	1 628	1 688	1 772
Operating leases	145	272	261	144	136	142	148
Travel and subsistence	3 536	3 668	5 256	6 692	7 406	7 725	8 090
Financial transactions in assets and liabilities	–	1	2	–	–	–	–
<b>Transfers and subsidies</b>	<b>1 052</b>	<b>860</b>	<b>6 189</b>	<b>5 027</b>	<b>5 000</b>	<b>5 000</b>	<b>5 000</b>
Provinces and municipalities	52	65	75	27	–	–	–
Universities and technikons	–	795	814	5 000	5 000	5 000	5 000
Public corporations and private enterprises	–	–	5 300	–	–	–	–
Foreign governments and international organisations	1 000	–	–	–	–	–	–
<b>Payments for capital assets</b>	<b>482</b>	<b>1 154</b>	<b>638</b>	<b>790</b>	<b>633</b>	<b>720</b>	<b>622</b>
Machinery and equipment	474	1 145	638	758	603	689	591
Software and other intangible assets	8	9	–	32	30	31	31
<b>Total</b>	<b>29 514</b>	<b>37 143</b>	<b>52 812</b>	<b>75 211</b>	<b>86 663</b>	<b>79 513</b>	<b>82 726</b>

**Table 8.8 Economic Policy and International Financial Relations (continued)**

R thousand	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Details of major transfers and subsidies:</b>							
<b>Universities and technikons</b>							
<b>Current</b>	–	795	814	5 000	5 000	5 000	5 000
University of Cape Town	–	795	814	5 000	5 000	5 000	5 000
<b>Private enterprises</b>							
<b>Other transfers</b>							
<b>Current</b>	–	–	5 300	–	–	–	–
Centre for Development and Enterprise	–	–	5 300	–	–	–	–
<b>Foreign governments and international organisations</b>							
<b>Current</b>	1 000	–	–	–	–	–	–
African Union	1 000	–	–	–	–	–	–

### Expenditure trends

Expenditure increased rapidly from R29,5 million in 2003/04 to R75,2 million in 2006/07, at an average annual rate of 36,6 per cent, due mainly to the increase in research funding, including funding research to support local economic research capacity and funding for research in support of the Accelerated and Shared Growth Initiative for South Africa (ASGISA).

Programme expenditure will decrease by 8,3 per cent in 2008/09 compared to 2007/08, due to the once-off funding for chairing the G20. Over the MTEF period there will be an average annual increase of 3,2 per cent due to capacity building.

### Service delivery objectives and indicators

#### Recent outputs

The programme's outputs include macroeconomic analysis and forecasting, developing a regulatory impact assessment framework, designing legislation for changes in tax policy, pension reforms aimed at improving governance over private pensions, monitoring and supporting the implementation of the Financial Sector Charter to broaden financial access, and working with regional bodies to promote regional integration. Key highlights include the contracting of international and local economists to research and assess government's growth initiative (ASGISA), and continuing work to give effect to the statement of intent agreed with major life insurance companies on compensating for the early surrender or amendment of retirement annuities and endowment policies.

## Selected medium-term output targets

### Economic Policy and International Financial Relations

**Measurable objective:** Provide policy advice to promote growth, employment, macroeconomic stability and regional integration.

Subprogramme	Output	Measure/indicator	Target
Management and Research	Publication and promotion of economic research relevant to South Africa	Publication of economic papers	Publication of papers on growth and employment, and retirement reform in 2007
Financial Sector Policy	Reforming system of retirement funding	Publishing papers, gazettes or legislation on retirement reforms	2 papers, gazettes or bills during 2007/08
	Financial stability	Regulations or legislation promoting financial stability	Enactment of amendments in Parliament before 1 January 2008
	Financial sector transformation and access	Gazetting of financial sector charter and introduction of Co-operatives Bill	10 December 2007
Tax Policy	Tax proposals for the annual budget	Chapter 4 of the Budget Review	Budget day in 2008
	Tax legislation and amendments	<ul style="list-style-type: none"> <li>• Revenue Laws Amendment Bill</li> <li>• Minerals and Petroleum Royalty Bill</li> <li>• Diamond export levy</li> </ul>	10 December 2007
International Economics	Promotion of African and Southern African economic integration	Agreement and implementation of a road for integration and review of South African Customs Union revenue sharing formula	31 December 2007
	Chairing G20 forum and delivering work programme for members	Arranging 5 workshops and 2 meetings of the forum	31 December 2007
Economic Policy	Economic policy inputs to the Budget	Economic forecasts, MTBPS and Budget Review chapters	Work processes developed by March 2007
	Microeconomic analysis	Economic assessments of microeconomic factors and policies	Institutional structure for microeconomic assessment establishment and fully functional

## Programme 7: Provincial and Local Government Transfers

The *Provincial and Local Government Transfers* programme manages conditional grants to the provincial and local spheres of government expenditure estimates.

There are three subprogrammes:

- *Provincial Infrastructure Grant* provides for the transfers to provinces and for monitoring. The grant supports accelerated infrastructure development and maintenance for roads, schools, health facilities and rural development.
- *Local Government Financial Management and Restructuring Grants* provides for the transfers to municipalities, and is responsible for the design and monitoring of the financial management grant and the restructuring grant, which are for piloting budget and financial reforms. The implementation of the Municipal Finance Management Act (2003) also falls under this subprogramme. As from 2008/09, the financial management grant will be part of the local government equitable share.
- *Neighbourhood Development Partnership Grant* provides for the transfer to municipalities for the design of partnership projects and co-financing the construction of new and improved community facilities.

## Expenditure Estimates

**Table 8.9 Provincial and Local Government Transfers**

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R thousand							
Provincial Infrastructure Grant	2 534 488	3 348 362	2 984 113	4 983 498	6 164 025	6 846 707	7 996 707
Local Government Financial Management and Restructuring Grants	645 000	516 900	387 500	590 250	495 250	150 000	199 990
Neighbourhood Development Partnership Grant	–	–	–	50 000	500 000	1 500 000	1 650 000
<b>Total</b>	<b>3 179 488</b>	<b>3 865 262</b>	<b>3 371 613</b>	<b>5 623 748</b>	<b>7 159 275</b>	<b>8 496 707</b>	<b>9 846 697</b>
Change to 2006 Budget estimate				906 972	336 593	1 100 000	

**Table 8.9 Provincial and Local Government Transfers (continued)**

R thousand	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Economic classification</b>							
<b>Transfers and subsidies</b>	<b>3 179 488</b>	<b>3 865 262</b>	<b>3 371 613</b>	<b>5 623 748</b>	<b>7 159 275</b>	<b>8 496 707</b>	<b>9 846 697</b>
Provinces and municipalities	3 179 488	3 865 262	3 371 613	5 623 748	7 159 275	8 496 707	9 846 697
<b>Total</b>	<b>3 179 488</b>	<b>3 865 262</b>	<b>3 371 613</b>	<b>5 623 748</b>	<b>7 159 275</b>	<b>8 496 707</b>	<b>9 846 697</b>

**Details of major transfers and subsidies:**

<b>Provinces</b>							
<b>Capital</b>	<b>2 534 488</b>	<b>3 348 362</b>	<b>2 984 113</b>	<b>4 983 498</b>	<b>6 164 025</b>	<b>6 846 707</b>	<b>7 996 707</b>
Provincial infrastructure grant	2 334 488	3 348 362	2 984 113	4 983 498	6 164 025	6 846 707	7 996 707
Flood rehabilitation grant	200 000	-	-	-	-	-	-
<b>Municipalities</b>							
<b>Current</b>	<b>645 000</b>	<b>516 900</b>	<b>387 500</b>	<b>640 250</b>	<b>495 250</b>	<b>150 000</b>	<b>199 990</b>
Local government restructuring grant	494 000	387 900	255 000	445 000	350 000	-	-
Financial management grant: Municipalities	151 000	129 000	132 500	145 250	145 250	150 000	199 990
Neighbourhood development partnership grant	-	-	-	50 000	-	-	-
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>500 000</b>	<b>1 500 000</b>	<b>1 650 000</b>
Neighbourhood development partnership grant	-	-	-	-	500 000	1 500 000	1 650 000

**Expenditure trends**

The provincial infrastructure grant, which contains the bulk of the programme's expenditure and accounts on average for 83,9 per cent over the seven-year period, addresses the backlogs in provincial infrastructure. Expenditure on the grant has increased rapidly from R2,5 billion in 2003/04 to R5 billion in 2006/07, at an average annual rate of 25,3 per cent. Spending on the grant declined by 10,9 per cent in 2005/06 from the previous year as five provinces did not meet the conditions, and because of low spending on capital budgets. R746 million was withheld from provinces.

The grant growth is expected to rapidly rise, with expenditure reaching R8 billion in 2009/10, at an average annual rate of 17,1 per cent over the MTEF period. This grant supports an increasing need for capital infrastructure. The strong growth over the MTEF period is aimed at scaling up the expanded public works programme through funding for access roads and maintenance in roads, while continuing to ensure that backlogs in schools and health infrastructure are addressed.

The local government financial grant amounted to R198 million in both 2004/05 and 2005/06. In 2005/06, R95 million was withheld because some municipalities did not meet the conditions for receiving the grant.

Over the MTEF period, R350 million has been allocated to the restructuring grant. This grant is phased out at the end of 2007/08.

The 2007 Budget allocation for the neighbourhood development partnership grant is R500 million in 2007/08, R1,5 billion in 2008/09 and R1,7 billion in 2009/10. This grant to municipalities is for the design of partnership projects and for co-financing the construction of new and better community facilities.

**Service delivery objectives and indicators****Recent outputs**

The more detailed framework of this grant was published in appendix E2 with the 2006 Division of Revenue Bill. The pilot phase of the infrastructure delivery improvement programme (IDIP), which started in 2004/05,

was finalised in 2005/06. The second phase of the programme was initiated with an assessment and design process undertaken in education and health departments. This process helped departments to define their needs and design the appropriate strategy and skills required for the technical assistant teams. The process contributed towards building relationships between education and public works departments and it was also aimed at overcoming weaknesses in commitment and ownership of the programme, which was identified as a major weakness during the pilot phase.

234 applications for the neighbourhood development partnership grant were received in the first phase, of which 36 projects qualify for the grant. These projects relate to nodal development and Thusong service centres.

### Selected medium-term output targets

#### Provincial and Local Government Transfers

**Measurable objective:** Improve the pace and quality of provincial infrastructure investment and asset maintenance, promote financial management reforms in municipalities, and restructure service delivery in municipalities with large budgets.

Subprogramme	Output	Measure/indicator	Target
Provincial Infrastructure Grant	Monitoring provincial infrastructure development	Transfers made according to conditions	Transfers made by 31 March 2008 in compliance with the requirements of the Division of Revenue Act
Local Government Financial Management and Restructuring Grants	Monitoring of municipal financial management reforms and restructuring	Transfers made according to conditions	Transfers made by 31 March 2008 in compliance with the requirements of the Division of Revenue Act
	Funding assistance to restructure and modernise service delivery in large- budget municipalities.	Monitoring of progress against agreed benchmarks	Managing and overseeing compliance with conditions of grants by successful municipalities by 2008
Neighbourhood Development- Partnership Grant	Technical assistance to municipalities	Number of projects	50 projects receiving technical assistance by October 2007
	Capital grant to municipalities	Number of projects	1 project to have started construction by October 2007

### Programme 8: Civil and Military Pensions, Contributions to Funds and Other Benefits

The key objective of the *Civil and Military Pensions, Contributions to Funds and Other Benefits* programme is to provide for pension and post-retirement medical benefit obligations to former employees of state departments and bodies, and for similar benefits to retired members of the military.

There are two subprogrammes:

- *Civil Pensions and Contributions to Funds* provides for the payment of benefits out of pension and other funds to the beneficiaries of various public sector bodies in terms of different statutes, collective bargaining agreements and other commitments.
- *Military Pensions and Other Benefits* provides for the payment of military pension benefits and medical claims arising from treatment for disability, medical assistance-devices, and other related expenses, in terms of statutory commitments.

## Expenditure estimates

**Table 8.10 Civil and Military Pensions, Contributions to Funds and Other Benefits**

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R thousand							
Civil Pensions and Contributions to Funds	2 148 823	1 782 619	1 860 893	2 033 871	2 177 912	2 284 762	2 411 770
Military Pensions and Other Benefits	139 629	138 700	149 981	155 214	160 396	167 926	178 522
<i>of which:</i>							
<i>Ex-servicemen</i>	47 407	45 250	43 369	43 614	53 424	55 932	58 645
<i>SA Citizen Force</i>	76 660	79 750	84 293	88 421	89 040	93 220	97 741
<i>Civil protection</i>	19	19	19	19	40	42	44
<i>Other benefits: Ex-servicemen</i>	13 451	11 514	19 428	20 960	15 582	16 314	17 105
<b>Total</b>	<b>2 288 452</b>	<b>1 921 319</b>	<b>2 010 874</b>	<b>2 189 085</b>	<b>2 338 308</b>	<b>2 452 688</b>	<b>2 590 292</b>
Change to 2006 Budget estimate				(28 447)	–	–	
<b>Economic classification</b>							
<b>Current payments</b>	<b>1 275 947</b>	<b>1 214 898</b>	<b>1 282 609</b>	<b>1 356 226</b>	<b>1 482 121</b>	<b>1 556 304</b>	<b>1 651 161</b>
Social contributions retired employees	1 259 073	1 199 958	1 256 782	1 308 000	1 466 494	1 539 944	1 616 941
Goods and services	16 320	14 336	18 039	48 226	15 627	16 360	34 220
Consultants, contractors and special services	16 320	14 336	18 039	48 226	15 627	16 360	34 220
Financial transactions in assets and liabilities	554	604	7 788	–	–	–	–
<b>Transfers and subsidies</b>	<b>1 012 505</b>	<b>706 421</b>	<b>728 265</b>	<b>832 859</b>	<b>856 187</b>	<b>896 384</b>	<b>939 131</b>
Foreign governments and international organisations	2 724	1 544	2 688	2 302	3 428	3 589	3 763
Non-profit institutions	52	56	58	62	65	68	71
Households	1 009 729	704 821	725 519	830 495	852 694	892 727	935 297
<b>Total</b>	<b>2 288 452</b>	<b>1 921 319</b>	<b>2 010 874</b>	<b>2 189 085</b>	<b>2 338 308</b>	<b>2 452 688</b>	<b>2 590 292</b>
<b>Details of major transfers and subsidies:</b>							
<b>Foreign governments and international organisations</b>							
<b>Current</b>	<b>2 724</b>	<b>1 544</b>	<b>2 688</b>	<b>2 302</b>	<b>3 428</b>	<b>3 589</b>	<b>3 763</b>
United Kingdom tax	2 724	1 544	2 688	2 302	3 428	3 589	3 763
<b>Non-profit institutions</b>							
<b>Social benefits</b>							
<b>Current</b>	<b>1 009 729</b>	<b>704 821</b>	<b>725 519</b>	<b>830 495</b>	<b>852 694</b>	<b>892 727</b>	<b>935 297</b>
Civil pensions	872 192	568 288	578 410	679 937	694 608	727 219	761 762
Military pensions	137 537	136 533	147 109	150 558	158 086	165 508	173 535

## Expenditure trends

Government's contributions to medical schemes on behalf of retired civil servants consumes the largest part of this programme, accounting on average for 62,7 per cent of the programme's budget, and growing from R1,4 billion in 2006/07 to R1,6 billion in 2009/10, at an average annual rate of 4,6 per cent.

The programme's expenditure is expected to increase at an average annual rate of 5,8 per cent over the medium term due to the amendments of the Special Pensions Act (1996), which will expand benefits to widows and orphans.

## Service delivery objectives and indicators

### Recent outputs

In May 2006, the Government Employees Pension Fund (GEPF) board of trustees appointed consultants to compile the ICT sourcing strategy for the GEPF. The resultant request for proposal (RFP) was prepared and published during September 2006, inviting response from potential service providers.

The core functions of the special pensions administration were improved for 2006/07. The special pensions section has successfully completed the rollout of new benefits to pensioners, and surviving dependants.

### Selected medium-term output target

#### Civil and Military Pensions, Contributions to Funds and Other Benefits

**Measurable objective:** Ensure that benefits and awards are paid to beneficiaries of departments, state-aided bodies and other specified bodies, in terms of legislation, collective-bargaining agreements and other commitments.

Subprogramme	Output	Measure/indicator	Target
Civil Pensions and Contributions to Funds	Payment of pension benefits and contributions to funds (Including special pensions)	Number of beneficiaries paid monthly	12 497 beneficiaries paid monthly by March 2008
	Payment of contributions to medical aid schemes on behalf of members	Contributions paid for a number of members	67 780 members per month
	Payment of risk and administrative fees to the Political Office Bearers Pension Fund	Number of members per month	900 members paid monthly
Military Pensions and Other Benefits	Payment of military pension benefits	Number of beneficiaries per month	4 630 beneficiaries paid monthly by March 2008
	Payment to service providers for medical expenses	Number of claims paid monthly to service providers	401 claims monthly by March 2008

## Programme 9: Fiscal Transfers

The *Fiscal Transfers* programme makes funds available to public entities and government agencies not funded via other departments, and to multilateral and international development institutions of which government is a member.

The subprogrammes reflect the different types of transfers. Domestic transfers are made to the Development Bank of Southern Africa (DBSA), the South African Revenue Service (SARS), and the Financial and Fiscal Commission for the fulfilment of their statutory obligations. In addition, funds are paid to augment the Secret Services account for intelligence gathering, and for the Financial Intelligence Centre.

Foreign transfer payments are made to: the International Development Association (IDA), which is part of the World Bank Group and which provides debt relief to poor countries in terms of a bilateral agreement between the donor countries and the International Monetary Fund (IMF) and World Bank; the African Development Bank and African Development Fund; Lesotho, Namibia and Swaziland (*Common Monetary Area Compensation* subprogramme) for the rand monetary area agreement; various international programmes supported by the government like the Commonwealth Fund for Technical Co-operation, the Investment Climate Facility, and the Global Alliance for Vaccines and Immunization (GAVI).

## Expenditure estimates

Table 8.11 Fiscal Transfers

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R thousand							
<b>Public entity transfers</b>							
Development Bank of Southern Africa (Siyenza Manje)	–	–	–	258 308	225 187	246 809	269 292
South African Revenue Service	3 792 007	4 602 509	4 254 302	4 874 591	5 511 031	5 982 338	6 526 435
Financial and Fiscal Commission	12 679	17 869	19 660	21 705	20 178	21 125	22 156
Secret Services Account	1 771 265	2 117 057	2 330 063	2 223 086	2 584 240	2 643 827	2 762 290
Financial Intelligence Centre	37 000	21 866	23 617	31 410	42 480	44 474	44 474
Financial management grant: Development Bank of Southern Africa	59 830	68 998	66 240	53 407	53 407	50 000	–
<b>Africa integration and support</b>							
Common Monetary Area (CMA) compensation	292 835	250 987	244 669	311 804	327 402	342 773	359 393
Regional integration	–	–	–	–	5 000	5 000	5 000
Financial and technical support	–	–	–	–	18 766	15 130	50 082
<b>Multilateral institutions</b>							
African Development Bank and African Development Fund	85 436	72 581	121 569	98 597	90 786	102 382	76 006
World Bank Group (including IDA)	28 162	25 401	21 584	145 118	48 814	39 134	11 001
International projects							
<i>Highly Indebted Poor Countries Initiative</i>	44 700	39 505	–	–	–	–	–
<i>Commonwealth Fund for Technical Cooperation</i>	2 620	2 290	2 309	3 000	3 150	3 150	3 150
<i>Global Alliance for Vaccines and Immunization</i>	–	–	–	7 000	7 500	8 000	8 500
<i>Investment Climate Facility</i>	–	–	–	–	7 800	8 300	8 900
<b>Total</b>	<b>6 126 534</b>	<b>7 219 063</b>	<b>7 084 013</b>	<b>8 028 026</b>	<b>8 945 741</b>	<b>9 512 442</b>	<b>10 146 679</b>
Change to 2006 Budget estimate				488 363	862 350	970 392	
<b>Economic classification</b>							
<b>Transfers and subsidies</b>	<b>6 126 534</b>	<b>7 219 063</b>	<b>7 084 013</b>	<b>8 028 026</b>	<b>8 945 741</b>	<b>9 512 442</b>	<b>10 146 679</b>
Departmental agencies and accounts	5 612 951	6 759 301	6 627 642	7 150 792	8 157 929	8 691 764	9 355 355
Public corporations and private enterprises	59 830	68 998	66 240	311 715	278 594	296 809	269 292
Foreign governments and international organisations	453 753	390 764	390 131	565 519	509 218	523 869	522 032
<b>Total</b>	<b>6 126 534</b>	<b>7 219 063</b>	<b>7 084 013</b>	<b>8 028 026</b>	<b>8 945 741</b>	<b>9 512 442</b>	<b>10 146 679</b>
<b>Details of major transfers and subsidies:</b>							
<b>Departmental agencies and accounts</b>							
<b>Current</b>	<b>4 858 730</b>	<b>5 718 802</b>	<b>5 798 316</b>	<b>6 780 365</b>	<b>7 301 264</b>	<b>7 857 531</b>	<b>8 471 865</b>
South African Revenue Service	3 457 459	4 113 559	3 803 868	4 788 029	5 255 704	5 700 671	6 220 821
Secret Services Account	1 363 592	1 569 324	1 955 216	1 944 606	1 988 556	2 097 180	2 190 333
Financial Intelligence Centre	25 000	18 050	19 572	26 025	36 826	38 555	38 555
Financial and Fiscal Commission	12 679	17 869	19 660	21 705	20 178	21 125	22 156
<b>Capital</b>	<b>754 221</b>	<b>1 040 499</b>	<b>829 326</b>	<b>370 427</b>	<b>856 665</b>	<b>834 233</b>	<b>883 490</b>
South African Revenue Service	334 548	488 950	450 434	86 562	255 327	281 667	305 614
Secret Services Account	407 673	547 733	374 847	278 480	595 684	546 647	571 957
Financial Intelligence Centre	12 000	3 816	4 045	5 385	5 654	5 919	5 919
<b>Public corporations</b>							
<b>Other transfers</b>							
<b>Current</b>	<b>59 830</b>	<b>68 998</b>	<b>66 240</b>	<b>311 715</b>	<b>278 594</b>	<b>296 809</b>	<b>269 292</b>
Development Bank of Southern Africa	–	–	–	258 308	225 187	246 809	269 292
Financial management grant: Development Bank of Southern Africa	59 830	68 998	66 240	53 407	53 407	50 000	–

Table 8.11 Fiscal Transfers (continued)

R thousand	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Foreign governments and international organisations</b>							
<b>Current</b>	<b>340 155</b>	<b>292 782</b>	<b>246 978</b>	<b>321 804</b>	<b>345 852</b>	<b>362 223</b>	<b>379 943</b>
Common Monetary Area (CMA) compensation	292 835	250 987	244 669	311 804	327 402	342 773	359 393
Highly Indebted Poor Countries Initiative	44 700	39 505	–	–	–	–	–
Commonwealth Fund for Technical Cooperation	2 620	2 290	2 309	3 000	3 150	3 150	3 150
Global Alliance for Vaccines and Immunization	–	–	–	7 000	7 500	8 000	8 500
Investment Climate Facility	–	–	–	–	7 800	8 300	8 900
<b>Capital</b>	<b>113 598</b>	<b>97 982</b>	<b>143 153</b>	<b>243 715</b>	<b>163 366</b>	<b>161 646</b>	<b>142 089</b>
African Development Bank	85 436	72 581	121 569	98 597	114 552	122 512	131 088
World Bank	28 162	25 401	21 584	145 118	48 814	39 134	11 001

### Expenditure trends

There is no direct expenditure under this programme. Expenditure increased from R6,1 billion in 2003/04 to R8 billion in 2006/07, at an average annual rate of 9,4 per cent, mainly due to additional allocations to SARS. Transfers are expected to increase from R8 billion in 2006/07 to R10,1 billion in 2009/10, at an average annual rate of 8,1 per cent, due to increased transfers to Secret Services, the DBSA for the support to municipalities through the Siyenza Manje initiative, and SARS to fund customs scanners, customs modernisation, capacity development, systems upgrade and debt management.

### Service delivery objectives and indicators

#### Recent outputs

There is no direct accountability to National Treasury once funds are transferred. All institutions receiving funds are either directly accountable to Parliament for spending the funds, like SARS, the Secret Services, the Financial Intelligence Centre and the Financial and Fiscal Commission, or to international boards of governors like the World Bank and the African Development Bank. The programme consists of three types of transfers:

**Transfers to public entities:** The largest transfers are to SARS (62,9 per cent) and Secret Services (29,1 per cent) over the MTEF period to fund the budgets of these entities. Other public entities funded include Financial Intelligence Centre and the Financial and Fiscal Commission, which report directly to Parliament on expenditure and outputs.

**Transfers for African integration and support:** These transfers are to support Africa-specific programmes like the African Union and the New Partnership for Africa's Development (NEPAD) and regional integration with the SADC and the SACU. The largest transfer is for the Common Monetary Area Compensation, which is made up of Lesotho, Namibia, Swaziland and South Africa. South Africa compensates the other countries for rands circulating in their respective territories as legal tender in terms of Article 6 of the Multilateral Monetary Agreement. The compensation is based on the understanding that South Africa, as the issuing country, benefits through seigniorage collection. R100 million over the MTEF period is provided to strengthen regional integration, and improve the capacity of the integration institutions within the region. South Africa also supports various African or international projects to write off debt or provides technical support. Funds to assist the promotion of regional integration within the SADC are also provided for.

**Transfer to multi-lateral institutions and international projects:** These are transfers to the World Bank (mainly for the International Development Association), the African Development Bank and the African Development Fund, as well as international projects such as the Commonwealth Fund for Technical Co-operation, the Global Alliance for Vaccines and Immunization, and the Investment Climate Facility.

The World Bank transfers are mainly to replenish the IDA, to fund the specific international programmes to write off debt to low income countries.

The African Development Bank (ADB) is a multilateral bank which finances development projects across the African continent, with a particular focus on infrastructure. The ADB is 60 per cent owned by African countries, with the remaining 40 per cent held by non-regional members. South Africa's current shareholding in the ADB of 4,5 per cent is low in relation to its economic weight on the continent, so provision has been made for it to acquire shares, which become available periodically. The aim is to increase South Africa's shareholding to 6 per cent over the next few years. Payments for share acquisitions are staggered over eight to ten years, so in 2007/08, payments will need to be made for shares acquired in previous years. In total, R77,3 million has been budgeted for share payments for 2007/08.

South Africa is also a donor to the African Development Fund, which provides concessional loans and grants to low income countries on the continent. South Africa has committed R38,1 million to the tenth replenishment of the African Development Fund (ADF), which is being paid in three equal instalments of R12,7 million per year. The third and final payment for ADF-X will be made in 2007/08. South Africa will also participate in the eleventh replenishment of the ADF, and negotiations for ADF-XI begin in early 2007.

South Africa has committed to various international projects as follows: R9,4 million over the MTEF period for the Commonwealth Fund for Technical Co-operation, to assist developing member countries acquire the necessary knowledge and institutional capacity to address their development priorities.

US\$1 million per year for three years has been pledged to the Investment Climate Facility, an initiative aimed at improving the investment climate in African countries through financing targeted projects in countries that have applied for the African Peer Review Mechanism process.

South Africa has also pledged US\$ 1 million per year for 20 years to the International Finance Facility for Immunisation (IFFIm). The proceeds of the IFFIm will be channelled to the GAVI Alliance, to develop new vaccines and improve health services in developing countries.

## Selected medium-term output targets

### Fiscal Transfers

**Measurable objective:** Meet international and other statutory financial obligations and the costs of effectively and efficiently raising revenue for the purpose of the state. Finance intelligence gathering and other secret services in the national interest.

Subprogramme	Output	Measure/Indicator	Target
Financial Intelligence Centre	Monitoring and analysis of financial transactions for evidence of laundering activities	Number of reports on unusual and suspicious transactions	15 000 reports per year
South African Revenue Service	Optimal revenue collection	Reduction in tax loopholes, improved assessment quality, debt collection, compliance and large tax base of contributing entities	By 2008/09
	Improved trade administration and border control	Increased coverage of interventions, staff capacity and competence, non-intrusive X ray scanning, canine units, establishment of trans-national corridors and integrated border service	By 2008/09
Accounting Standards Board	Set of GRAP standards as required by section 216(1) of the Constitution	Completed set of GRAP standards	12 documents per year, core set completed in 2008/09

## Trading entity

### Project development facility

The project development facility (PDF) is a single-function trading entity in National Treasury's PPP unit, created in accordance with the PFMA. Its role is to pay for services provided by consultants (transaction advisors) on contract to a department or public entity for a PPP. After the financial close of the PPP, the funds are recovered from the successful private party bidder.

The PDF was originally committed to funding projects at national and provincial levels. In 2006, the PDF's mandate was amended to allow municipalities to apply for funding for technical assistance for PPP projects. The PDF's mandate was further amended to disburse technical assistance funds for municipalities wishing to access capital grants from the neighbourhood development partnership grant, and it has committed R50 million for 36 projects for this purpose. All the projects meet the PDF criteria for prioritising social services and infrastructure projects.

<b>Project</b>	<b>Funding approved (R)</b>
Eastern Cape Department of Health: Pharmaceuticals	3 146 696
Settlers and Port Alfred hospitals	496 060
Western Cape Rehabilitation Centre	2 925 000
Department of Labour ICT Convergence Phase 1	1 960 000
Western Cape Department of Health: Swellendam Hospital	561 450
<b>Additional Funding</b>	
Western Cape Department of Health: Swellendam	95 000
Eastern Cape Pharmaceuticals	1 500 000
South African Medical Services (South African National Defence Force)	60 000
Gauteng Department of Health: Chris Hani	1 000 000
Potchefstroom Solid Waste	1 000 000
Hibiscus Property Development	500 000
Eastern Cape Department of Health: Pharmaceuticals	1 900 000
<b>Total</b>	<b>15 144 206</b>

## Public entities reporting to the minister

### South African Revenue Service

In support of government's priorities, the South African Revenue Service (SARS) is mandated by legislation to collect revenues that are due; ensure maximum compliance with legislation; and provide a customs service to maximise revenue collection, protect the borders and facilitate trade.

The current economic buoyancy, a growing culture of compliance and tax morality, and ongoing improvements in efficiencies and service, have resulted in impressive gains in all these areas of responsibility. During 2006, tax revenue collected amounted to R417,3 billion, over R44 billion ahead of the original printed estimate. This represents a year on year growth in revenue collections of 12,1 per cent over the past nine years. This has been supported by year on year growth of 9,8 per cent in the tax register (Income Tax, VAT and PAYE) from 3,4 million to 7,6 million taxpayers.

In the year ahead SARS will continue its three-pronged drive for better compliance: by seeking further service standard improvements and providing additional channels of access to all clients; by educating and informing taxpayers and traders of their obligations and contribution to the growth and development of South Africa; and by strengthening its enforcement capabilities to deter and detect non-compliance.

Key priorities for the year ahead within funding constraints include paying special attention to the needs of small businesses (including the small business tax amnesty), modernising and improving customs operations, expanding the use of technology to improve the ease and efficiency of compliance, and further investments in skills development and human capacity within the organisation.

SARS funding comprises a transfer from National Treasury, commissions earned on the collection of skills development levies and the Unemployment Insurance Fund (UIF) and interest received on any temporary cash balances. Transfers received rise from R4,9 billion in 2006/07 to R6,5 billion over the medium term. This revenue largely funds goods and services and compensation of employees.

**Table 8.12 Financial summary for the South African Revenue Service**

R thousand	Outcome			Estimated outcome	Medium-term estimate		
	Audited 2003/04	Audited 2004/05	Audited 2005/06		2007/08	2008/09	2009/10
<b>Revenue</b>							
<b>Non-tax revenue</b>	<b>261 990</b>	<b>226 310</b>	<b>240 013</b>	<b>225 408</b>	<b>219 794</b>	<b>239 473</b>	<b>252 000</b>
Interest	127 493	77 866	57 963	52 976	33 000	34 000	36 000
Other non-tax revenue	134 497	148 444	182 050	172 432	186 794	205 473	216 000
<b>Transfers received</b>	<b>3 326 322</b>	<b>4 037 289</b>	<b>4 254 302</b>	<b>4 874 590</b>	<b>5 511 031</b>	<b>5 982 338</b>	<b>6 526 435</b>
<b>Total revenue</b>	<b>3 588 312</b>	<b>4 263 599</b>	<b>4 494 315</b>	<b>5 099 998</b>	<b>5 730 825</b>	<b>6 221 811</b>	<b>6 778 435</b>
<b>Expenses</b>							
<b>Current expense</b>	<b>3 555 058</b>	<b>4 303 768</b>	<b>4 917 300</b>	<b>5 414 935</b>	<b>5 675 277</b>	<b>6 167 500</b>	<b>6 744 312</b>
Compensation of employees	2 074 150	2 455 363	2 862 167	3 247 885	3 387 360	3 724 140	4 036 432
Goods and services	1 304 507	1 621 936	1 813 538	1 938 281	2 071 594	2 201 089	2 421 874
Depreciation	176 390	226 462	239 132	211 143	199 779	227 356	271 491
Interest, dividends and rent on land	11	7	2 463	17 626	16 544	14 915	14 514
<b>Transfers and subsidies</b>	<b>5 312</b>	<b>6 009</b>	<b>7 870</b>	<b>2 825</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total expenses</b>	<b>3 560 370</b>	<b>4 309 777</b>	<b>4 925 170</b>	<b>5 417 760</b>	<b>5 675 277</b>	<b>6 167 500</b>	<b>6 744 312</b>
<b>Surplus / (Deficit)</b>	<b>27 942</b>	<b>(46 178)</b>	<b>(430 855)</b>	<b>(317 762)</b>	<b>55 548</b>	<b>54 311</b>	<b>34 123</b>
<b>Balance sheet data</b>							
Carrying value of assets	504 096	510 421	598 748	482 388	537 936	592 247	626 370
Receivables and prepayments	47 129	35 057	56 109	43 949	49 186	53 046	57 586
Cash and cash equivalents	946 997	1 132 907	747 361	561 118	557 279	577 070	606 979
<b>Total assets</b>	<b>1 498 222</b>	<b>1 678 385</b>	<b>1 402 218</b>	<b>1 087 454</b>	<b>1 144 401</b>	<b>1 222 363</b>	<b>1 290 935</b>
Capital and reserves	1 119 961	1 073 783	643 463	441 485	381 249	435 560	469 683
Borrowings	-	-	162 152	35 794	138 826	135 813	131 144
Trade and other payables	214 343	397 623	240 360	235 293	229 614	236 226	254 012
Provisions	163 918	206 979	356 243	374 883	394 711	414 764	436 096
<b>Total equity and liabilities</b>	<b>1 498 222</b>	<b>1 678 385</b>	<b>1 402 218</b>	<b>1 087 454</b>	<b>1 144 401</b>	<b>1 222 363</b>	<b>1 290 935</b>
<b>Contingent liabilities</b>	<b>118 682</b>	<b>118 262</b>	<b>107 863</b>	<b>107 863</b>	<b>107 863</b>	<b>107 863</b>	<b>107 863</b>

Source: SA Revenue Service

## Development Bank of Southern Africa

The Development Bank of Southern Africa (DBSA) is a schedule 2 public entity governed by the Development Bank of Southern Africa Act (1997). DBSA plays a triple role of financier, advisor and partner, by mobilising finance and expertise for development projects. Most of these projects provide communities with access to affordable basic services such as water and sanitation, transport, electricity and communication. Although it prioritises infrastructure backlogs, the bank also funds projects that support social, institutional and economic infrastructure development.

DBSA provides products and services to its clients including direct loans and consulting and advisory services, which allow it to generate substantial own revenue, amounting to R2,5 billion in 2006/07 and which is expected to rise to R3,3 billion by 2009/10.

The main strategic thrust towards 2014 will be to broaden and deepen its development impact, with special attention to eliminating backlogs in basic services, promoting job creation and stimulating local economic development. The bank will operate as a development finance institution, to contribute to development through mobilising and providing finance and expertise and by establishing partnerships, to develop infrastructure to improve the quality of life of the people of Africa.

## **Financial Intelligence Centre**

The Financial Intelligence Centre (FIC) was established in terms of the Financial Intelligence Centre Act (2001) (FICA) and has been operational since February 2002. The FIC has implemented customer due diligence measures enabling it to operate as an independent state agency, and has implemented regulations supporting the act since June 2003. The FIC's core mandate is to process, analyse and interpret information disclosed to it by accountable institutions in the private sector. The FIC analyses the information and thereafter make referrals to law enforcement authorities, intelligence services and SARS for investigation and prosecution if necessary.

The FIC was established as a project by National Treasury and although now an autonomous entity, continues to receive a range of support services and funding from the Treasury. Over the medium term, the FIC will receive R42,5 million in 2007/08, R44,5 million in 2008/09 and R44,5 million in 2009/10 from National Treasury.

Major objectives of the FIC over the medium term include: timeous capture, analysis and referrals of suspicious transaction reports to law enforcement authorities; implementing measures to effectively manage the exchange of information with law enforcement authorities and other financial intelligence units worldwide; implementing legislative amendments to the FICA; and introducing new reporting requirements as set out in the act.

## **Financial Services Board**

The Financial Services Board (FSB) is a statutory body established in terms of the Financial Services Board Act (1990). It supervises the activities of non-banking financial institutions and services, and acts in an advisory capacity to the Minister of Finance. A further function of the board is to promote programmes and initiatives by financial institutions and bodies representing the financial services industry to inform and educate users and potential users of financial products and services. The board is financed by the financial services industry, with no contribution from government.

The board supervises institutions and services in terms of 13 acts. Functions include regulatory control over long and short-term insurance, retirement funds, friendly societies, capital markets, financial advisory and intermediate services, insider trading and collective investment schemes and central security depositories responsible for the safe custody of securities. The board is also responsible for the financial supervision of the Road Accident Fund and supervising compliance with money-laundering control measures in the Financial Intelligence Centre Act.

The registration of nearly 13 000 financial services providers in terms of the Financial Advisory and Intermediary Services (FAIS) Act (2002) has dominated activities in the FAIS department during 2005/06. The rulings by the pension fund adjudicator (PFA) challenged certain business practices in the industry. In August and October the FSB signed bilateral memorandums of understanding with the Bermuda Monetary Authority and the Israel Security Authority.

Objectives for 2007 are: to encourage industry to finalise the submission of all surplus schemes; to assist in rewriting the Pension Funds Act (1956); to continue developing the industry to introduce financial condition reporting for short-term insurers; and to finalise and implement the principles of financial management regarding the governance of discretionary participation policies.

The budgeted surplus for 2005/06 was R9,1 million and the net surplus for the year was R31,5 million. The surplus budget was motivated by the requirement to recoup the deficit of R31 million relating to costs incurred in setting up the FAIS department.

**Table 8.13 Financial summary for the Financial Services Board**

R thousand	Outcome			Estimated outcome	Medium-term estimate		
	Audited 2003/04	Audited 2004/05	Audited 2005/06		2007/08	2008/09	2009/10
<b>Revenue</b>							
<b>Non-tax revenue</b>	<b>113 379</b>	<b>141 649</b>	<b>228 801</b>	<b>239 377</b>	<b>209 000</b>	<b>220 000</b>	<b>233 900</b>
Sales by market establishments	101 522	127 001	216 118	230 704	203 000	215 000	227 900
Other non-tax revenue	11 857	14 648	12 683	8 673	6 000	5 000	6 000
<b>Total revenue</b>	<b>113 379</b>	<b>141 649</b>	<b>228 801</b>	<b>239 377</b>	<b>209 000</b>	<b>220 000</b>	<b>233 900</b>
<b>Expenses</b>							
<b>Current expense</b>	<b>107 321</b>	<b>125 463</b>	<b>197 827</b>	<b>223 659</b>	<b>213 784</b>	<b>224 517</b>	<b>236 755</b>
Compensation of employees	69 811	79 315	114 999	158 633	141 110	147 276	155 095
Goods and services	35 044	43 078	78 160	61 230	68 130	72 255	76 110
Depreciation	2 460	3 069	4 668	3 796	4 544	4 986	5 550
Interest, dividends and rent on land	6	1	–	–	–	–	–
<b>Transfers and subsidies</b>	<b>306</b>	<b>2 410</b>	<b>1 592</b>	<b>500</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total expenses</b>	<b>107 627</b>	<b>127 873</b>	<b>199 419</b>	<b>224 159</b>	<b>213 784</b>	<b>224 517</b>	<b>236 755</b>
<b>Surplus / (Deficit)</b>	<b>5 752</b>	<b>13 776</b>	<b>29 382</b>	<b>15 218</b>	<b>(4 784)</b>	<b>(4 517)</b>	<b>(2 855)</b>

Source: Financial Services Board

## Public Investment Corporation

The Public Investment Corporation (PIC) is a corporate body governed in terms of the Public Investment Corporation Act (2004). The corporation was officially launched in April 2005, before which it was known as the Public Investment Commissioners.

The PIC invests funds on behalf of the South African public sector. There are currently 40 entities or clients whose funds are managed by PIC. Assets managed by the PIC have grown from R461 billion in 2005 to R598,9 billion up to 31 March 2006. The PIC concluded the heads of agreement for the establishment of a joint venture to create one of the largest socially responsible investment funds, the Community Property Fund. It is effectively self-funded, and produces its own annual report, which is tabled in Parliament. The PIC reports to the Minister of Finance.

**Table 8.14 Financial summary for the Public Investment Corporation Limited**

R thousand	Outcome			Estimated outcome	Medium-term estimate		
	Audited 2003/04	Audited 2004/05	Audited 2005/06		2007/08	2008/09	2009/10
<b>Revenue</b>							
<b>Non-tax revenue</b>	<b>31 491</b>	<b>65 291</b>	<b>71 740</b>	<b>119 082</b>	<b>123 965</b>	<b>133 798</b>	<b>133 798</b>
Admin fees	–	59 031	66 391	114 092	122 872	132 702	132 702
Other non-tax revenue	31 491	6 260	5 349	4 990	1 093	1 096	1 096
<b>Total revenue</b>	<b>31 491</b>	<b>65 291</b>	<b>71 740</b>	<b>119 082</b>	<b>123 965</b>	<b>133 798</b>	<b>133 798</b>
<b>Expenses</b>							
<b>Current expense</b>	<b>23 719</b>	<b>58 921</b>	<b>80 192</b>	<b>100 580</b>	<b>118 393</b>	<b>126 987</b>	<b>126 987</b>
Compensation of employees	9 908	28 816	38 552	60 708	70 860	74 958	74 958
Goods and services	12 338	26 888	35 272	31 626	35 883	38 643	38 643
Depreciation	1 473	3 217	6 254	8 246	11 650	13 386	13 386
Interest, dividends and rent on land	–	–	114	–	–	–	–
<b>Transfers and subsidies</b>	<b>525</b>	<b>977</b>	<b>1 444</b>	<b>1 518</b>	<b>1 664</b>	<b>1 673</b>	<b>1 673</b>
<b>Total expenses</b>	<b>24 244</b>	<b>59 898</b>	<b>78 764</b>	<b>102 098</b>	<b>120 057</b>	<b>128 660</b>	<b>128 660</b>
<b>Surplus / (Deficit)</b>	<b>7 247</b>	<b>5 393</b>	<b>(7 024)</b>	<b>16 984</b>	<b>3 908</b>	<b>5 138</b>	<b>5 138</b>

Source: Public Investment Corporation Limited

## **Accounting Standards Board**

The Accounting Standards Board (ASB), established in the latter part of 2002 in accordance with the PFMA as amended, is mainly responsible for setting the accounting standards of generally recognised accounting practice (GRAP) in government. The ASB sets standards and guidelines for financial statements as required by section 216 (a) of the Constitution of South Africa.

To date the ASB has issued the following standards of GRAP: Preface to the Standards of Generally Recognised Accounting Practice; Framework for the Preparation and Presentation of Financial Statements; Presentation of Financial Statements; Cash Flow Statements; Accounting Policies, Changes in Accounting Estimates and Errors; Consolidated and Separate Financial Statements; Investments in Associates; Interests in Joint Ventures; Revenue from Exchange Transactions; Inventories; Leases; Investment Property; Property, Plant and Equipment; Segment Reporting; Non-Current Assets held for Sale and Discontinued Operations; Agriculture; Intangible Assets and Construction Contracts. These standards on accrual accounting are ready to be implemented by public sector entities.

The ASB has also issued the following documents for comment: Provisions, Contingent Liabilities and Contingent Assets; The Effect of Changes in Foreign Exchange Rates; Financial Reporting in Hyperinflationary Economies; Events after the Reporting Date; Heritage Assets and Public-Private Partnership Agreements.

Over the medium term, the board aims to develop and issue a core set of GRAP standards that would be available for implementation at all spheres of government. This is in line with the movement towards accrual accounting. A core set of standards will enable a co-ordinated approach to GRAP training to be undertaken and contribute to transparency and accountability in financial reporting.

The ASB will receive transfers of R5,5 million in 2007/08, R5,7 million in 2008/09 and R6 million in 2009/10 from National Treasury.

## **South African Special Risk Insurance Association**

The South African Special Risk Insurance Association (SASRIA) was established in 1979 and was registered in terms of section 21 of the Companies Act (1973), but in 1998 the conversion of the SASRIA Act (1998) made government the sole shareholder. The goal of SASRIA is to create an environment for positive growth and change, even in the face of special risks.

In 2005/06 the SASRIA changed its financial year end from December to March to be in line with government. This led to reporting on a 15-month period. The SASRIA also converted its financial statements to be in line with international financial reporting standards (IFRS) requirements from 2005/06, including the comparative information for 2004/05.

Developing and implementing an insurance management system in 2005/06 will greatly assist in the company achieving its strategic objectives. The SASRIA also purchased the Microsoft Great Plains product as its new financial system for better functionality.

The SASRIA increased its premium income in the 15 month period to R512,9 million from R375,2 million from the previous year. Investment income increased from R155,6 million to R278 million over the same period. This led to profits attributable to the ordinary shareholder of R297,2 million after tax.

**Table 8.15 Financial summary for the South African Special Risk Association**

R thousand	Outcome			Estimated outcome	Medium-term estimate		
	Audited 2003/04	Audited 2004/05	Audited 2005/06		2006/07	2007/08	2008/09
<b>Revenue</b>							
<b>Non-tax revenue</b>	<b>477 868</b>	<b>525 293</b>	<b>791 029</b>	<b>622 000</b>	<b>686 000</b>	<b>782 000</b>	<b>880 000</b>
Sales by market establishments	331 663	375 214	512 985	480 000	530 000	610 000	690 000
Interest	146 205	150 079	278 044	142 000	156 000	172 000	190 000
<b>Total revenue</b>	<b>477 868</b>	<b>525 293</b>	<b>791 029</b>	<b>622 000</b>	<b>686 000</b>	<b>782 000</b>	<b>880 000</b>
<b>Expenses</b>							
<b>Current expense</b>	<b>286 822</b>	<b>215 720</b>	<b>14 307</b>	<b>14 433</b>	<b>15 538</b>	<b>14 924</b>	<b>16 087</b>
Compensation of employees	7 054	8 633	7 982	8 145	8 721	9 341	10 006
Goods and services	279 481	206 768	5 479	5 503	6 018	4 769	5 246
Depreciation	287	319	846	785	799	814	835
<b>Transfers and subsidies</b>	<b>375</b>	<b>362</b>	<b>707</b>	<b>332</b>	<b>311</b>	<b>342</b>	<b>376</b>
<b>Total expenses</b>	<b>347 554</b>	<b>235 932</b>	<b>127 683</b>	<b>105 612</b>	<b>209 193</b>	<b>237 618</b>	<b>266 888</b>
<b>Surplus / (Deficit)</b>	<b>130 314</b>	<b>289 361</b>	<b>663 346</b>	<b>516 388</b>	<b>476 807</b>	<b>544 382</b>	<b>613 112</b>
<b>Balance sheet data</b>							
Carrying value of assets	683	3 066	8 043	5 911	3 703	1 541	1 750
Investments	1 292 806	1 497 008	1 894 887	2 036 887	2 537 951	3 111 995	3 734 398
Receivables and prepayments	66 373	109 997	33 862	43 000	43 500	47 000	51 500
Cash and cash equivalents	28 427	6 612	33 038	35 000	20 000	15 000	10 000
<b>Total assets</b>	<b>1 388 289</b>	<b>1 616 683</b>	<b>1 969 830</b>	<b>2 120 798</b>	<b>2 605 154</b>	<b>3 175 536</b>	<b>3 797 648</b>
Capital and reserves	1 172 587	1 461 948	1 709 520	1 980 798	2 458 154	3 021 536	3 636 648
Trade and other payables	93 858	75 866	94 267	40 000	42 000	44 000	46 000
Provisions	121 844	78 869	166 043	100 000	105 000	110 000	115 000
<b>Total equity and liabilities</b>	<b>1 388 289</b>	<b>1 616 683</b>	<b>1 969 830</b>	<b>2 120 798</b>	<b>2 605 154</b>	<b>3 175 536</b>	<b>3 797 648</b>

Source: South African Special Risk Insurance Association

### Independent Regulatory Board for Auditors

The Independent Regulatory Board for Auditors (IRBA) was established in terms of section 3 of the Audit Profession Act (2005), and came into effect on 1 April 2006. The goal of the IRBA is to protect the public who rely on the services of registered auditors and support registered auditors who carry out their duties competently, fearlessly and in good faith.

The objectives of the IRBA over the medium term are to develop and maintain auditing and ethical standards which are internationally comparable, provide an appropriate framework for the education and training of properly qualified auditors, inspect and review the work of registered auditors, and investigate and take appropriate action against registered auditors who do not comply with standards and are guilty of improper conduct.

The IRBA will receive transfers of R17,1 million in 2007/08, R18 million in 2008/09 and R18,8 million in 2009/10 from National Treasury.

## Additional tables

**Table 8.A Summary of expenditure trends and estimates per programme and economic classification**

Programme	Appropriation		Audited outcome	Appropriation			Revised estimate
	Main	Adjusted		Main	Additional	Adjusted	
R thousand	2005/06		2005/06	2006/07			2006/07
1. Administration	133 488	151 333	142 953	135 362	38 030	173 392	166 596
2. Public Finance and Budget Management	106 053	128 714	121 149	163 185	2 141	165 326	130 129
3. Asset and Liability Management	49 722	30 843	30 162	45 474	13 681	59 155	45 441
4. Financial Management and Systems	281 999	294 176	239 181	559 798	(196 484)	363 314	227 940
5. Financial Accounting and Reporting	85 634	57 990	47 970	86 684	(11 040)	75 644	67 625
6. Economic Policy and International Financial Relations	45 708	52 635	52 812	83 471	(8 260)	75 211	61 728
7. Provincial and Local Government Transfers	4 226 106	4 226 106	3 371 613	4 663 369	960 379	5 623 748	5 623 748
8. Civil and Military Pensions, Contributions to Funds and Other Benefits	2 178 805	2 080 805	2 010 874	2 217 532	(28 447)	2 189 085	2 159 273
9. Fiscal Transfers	6 926 449	7 193 449	7 084 013	7 616 390	411 636	8 028 026	8 021 550
<b>Subtotal</b>	<b>14 033 964</b>	<b>14 216 051</b>	<b>13 100 727</b>	<b>15 571 265</b>	<b>1 181 636</b>	<b>16 752 901</b>	<b>16 504 030</b>
<b>Direct charge against the National Revenue Fund</b>	<b>187 831 191</b>	<b>187 140 632</b>	<b>186 203 631</b>	<b>202 801 930</b>	<b>539 080</b>	<b>203 341 010</b>	<b>202 930 930</b>
Provinces equitable share	134 706 191	135 291 632	135 291 632	150 752 930	–	150 752 930	150 752 930
State debt costs	53 125 000	51 849 000	50 911 999	52 049 000	539 080	52 588 080	52 178 000
<b>Total</b>	<b>201 865 155</b>	<b>201 356 683</b>	<b>199 304 358</b>	<b>218 373 195</b>	<b>1 720 716</b>	<b>220 093 911</b>	<b>219 434 960</b>

### Economic classification

<b>Current payments</b>	<b>55 221 551</b>	<b>53 840 018</b>	<b>52 779 567</b>	<b>54 476 774</b>	<b>316 183</b>	<b>54 792 957</b>	<b>54 140 472</b>
Compensation of employees	1 672 492	1 526 348	1 456 217	1 680 047	(115 834)	1 564 213	1 505 223
Goods and services	424 059	464 670	403 316	747 727	(107 063)	640 664	457 249
Interest and rent on land	53 125 000	51 849 000	50 911 999	52 049 000	539 080	52 588 080	52 178 000
Financial transactions in assets and liabilities	–	–	8 035	–	–	–	–
<b>Transfers and subsidies</b>	<b>146 630 913</b>	<b>147 494 692</b>	<b>146 507 258</b>	<b>163 883 870</b>	<b>1 396 809</b>	<b>165 280 679</b>	<b>165 274 213</b>
Provinces and municipalities	138 985 831	139 571 788	138 663 854	155 416 349	960 545	156 376 894	156 376 894
Departmental agencies and accounts	6 402 817	6 652 842	6 652 130	7 148 282	39 462	7 187 744	7 156 344
Universities and technikons	–	5 000	814	5 000	–	5 000	5 000
Public corporations and private enterprises	40 000	55 825	72 064	53 907	258 332	312 239	312 239
Foreign governments and international organisations	458 480	465 480	392 819	446 987	120 834	567 821	592 755
Non-profit institutions	58	58	58	62	–	62	62
Households	743 727	743 699	725 519	813 283	17 636	830 919	830 919
<b>Payments for capital assets</b>	<b>12 691</b>	<b>21 973</b>	<b>17 533</b>	<b>12 551</b>	<b>7 724</b>	<b>20 275</b>	<b>20 275</b>
Machinery and equipment	12 417	20 460	16 482	12 196	3 710	15 906	15 906
Software and intangible assets	274	1 513	1 051	355	4 014	4 369	4 369
<b>Total</b>	<b>201 865 155</b>	<b>201 356 683</b>	<b>199 304 358</b>	<b>218 373 195</b>	<b>1 720 716</b>	<b>220 093 911</b>	<b>219 434 960</b>

**Table 8.B Summary of personnel numbers and compensation of employees**

	Audited outcome			Adjusted appropriation	Medium-term expenditure estimates		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>A. Permanent and full-time contract employees</b>							
Compensation (R thousand)	127 363	160 635	196 335	251 884	313 830	334 757	350 992
Social contributions: post retirement benefits	1 259 073	1 199 958	1 256 782	1 308 000	1 466 494	1 539 944	1 616 941
Unit cost (R thousand)	225	245	277	344	356	337	353
Personnel numbers (head count)	567	655	710	732	882	994	994
<b>C. Interns</b>							
Compensation of interns	–	1 680	3 100	4 329	3 900	3 900	3 900
Unit cost (R thousand)	–	60	62	79	65	65	65
Number of interns	–	28	50	55	60	60	60
<b>Total for department</b>							
<b>Compensation (R thousand)</b>	<b>127 363</b>	<b>162 315</b>	<b>199 435</b>	<b>256 213</b>	<b>317 730</b>	<b>338 657</b>	<b>354 892</b>
<b>Unit cost (R thousand)</b>	<b>225</b>	<b>238</b>	<b>262</b>	<b>326</b>	<b>337</b>	<b>321</b>	<b>337</b>
<b>Personnel numbers (head count)</b>	<b>567</b>	<b>683</b>	<b>760</b>	<b>787</b>	<b>942</b>	<b>1 054</b>	<b>1 054</b>

**Table 8.C Summary of expenditure on training**

	Audited outcome			Adjusted appropriation	Medium-term expenditure estimates		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Training and staff development</b>							
Expenditure (R thousand)	6 417	4 812	16 535	15 395	21 145	22 569	23 142
Number of employees trained (head count)	51	311	362	933	993	1 053	1 113
<b>Bursaries (employees)</b>							
Expenditure per programme (R thousand)	–	627	948	1 665	2 541	2 852	3 097
Number of employees (head count)	–	48	60	74	70	96	106
<b>Bursaries (non employees)</b>							
Expenditure (R thousand)	–	–	–	400	600	800	1 000
Number of individuals (head count)	–	–	–	18	20	20	20
<b>Total</b>	<b>6 417</b>	<b>5 439</b>	<b>17 483</b>	<b>17 460</b>	<b>24 286</b>	<b>26 221</b>	<b>27 239</b>
<b>Number of employees</b>	<b>51</b>	<b>359</b>	<b>422</b>	<b>1 025</b>	<b>1 083</b>	<b>1 169</b>	<b>1 239</b>

**Table 8.D Summary of conditional grants to provinces and municipalities<sup>1</sup>**

R thousand	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Conditional grants to provinces</b>							
<b>7. Provincial and local government transfers</b>							
Provincial infrastructure grant	2 334 488	3 348 362	2 984 113	4 983 498	6 164 025	6 846 707	7 996 707
Provincial infrastructure: Flood rehabilitation grant	200 000	–	–	–	–	–	–
<b>Total</b>	<b>2 534 488</b>	<b>3 348 362</b>	<b>2 984 113</b>	<b>4 983 498</b>	<b>6 164 025</b>	<b>6 846 707</b>	<b>7 996 707</b>
<b>Conditional grants to municipalities</b>							
<b>7. Provincial and local government transfers</b>							
Local government restructuring grant	494 000	387 900	255 000	445 000	350 000	–	–
Financial management grant: Municipalities	151 000	129 000	132 500	145 250	145 250	150 000	199 990
Neighbourhood development partnership grant	–	–	–	50 000	500 000	1 500 000	1 650 000
<b>Total</b>	<b>645 000</b>	<b>516 900</b>	<b>387 500</b>	<b>640 250</b>	<b>995 250</b>	<b>1 650 000</b>	<b>1 849 990</b>

1. Detail provided in the Division of Revenue Act (2007).

**Table 8.E Summary of expenditure on infrastructure**

Description	Service delivery outputs			Adjusted appropriation	Medium-term expenditure estimate		
	Audited outcome						
R thousand	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Infrastructure transfers to other spheres, agencies and departments</b>							
Provincial infrastructure grant	2 534 488	3 348 362	2 984 113	4 983 498	6 164 025	6 846 707	7 996 707
Neighbourhood development partnership grant: Co-financing the construction of new and improved community facilities	–	–	–	50 000	500 000	1 500 000	1 650 000
<b>Maintenance on infrastructure (capital)</b>							
Refurbishment of 40 Church Square	3 000	–	–	–	–	–	–
Refurbishment of 240 Vermeulen Street	9 000	6 337	5 000	–	–	–	–
Refurbishment of SITA Centurion	–	–	15 000	–	–	–	–
<b>Total</b>	<b>2 546 488</b>	<b>3 354 699</b>	<b>3 004 113</b>	<b>5 033 498</b>	<b>6 664 025</b>	<b>8 346 707</b>	<b>9 646 707</b>

