National Treasury Strategic Plan

2004-2007

ISBN: 0-621-35088-5
RP: 35/2004

The 2004-2007 National Treasury Strategic Plan is compiled with the latest available information from departmental and other sources. Some of this information is unaudited or subject to revision.

To obtain copies, please contact:

Communications Directorate
National Treasury
Private Bag X115
Pretoria
0001
South Africa
Tel: +27 12 315 5948
Fax: +27 12 315 5160

The 2004-2007 National Treasury Strategic Plan is also available on www.treasury.gov.za

National Treasury

National Treasury Strategic Plan

2004-2007

Republic of South Africa

May 2004

National Treasury

CONTENTS

STRATEGIC OVERVIEW

PROGRAMME STRATEGIC PLANS

PUBLIC ENTITIES

ORGANISATIONAL INFORMATION AND INSTITUTIONAL ENVIRONMENT

STRATEGIC OVERVIEW

MINISTER'S STATEMENT OF POLICY AND COMMITMENT

The 2004 Budget presented to Parliament on 18 February 2004 is the continuation of sustainable fiscal policies, based on a decade of consolidated macro-economic stability, to ensure a better life for all our citizens.

As Government, we have also constantly adapted our plans to the progress we have made and the changing circumstance around us. In 2002, we tabled a Budget in which R63 billion was added to our three-year spending plans; last year an additional R105 billion went to national departments, provinces and municipalities. This year we are able to add a further R44, 5 billion to our highest priority, public service delivery programmes.

Last year, we projected a budget deficit of 2,4 per cent for the next year ahead: this year it widens to 3,1 per cent of the GDP before moderating to 2,8 percent in 2006/07. National budget revenue remains at 24,7 per cent of GDP over the next three years and non-interest expenditure rises by 4,8 per cent a year in real terms over the next three years.

Improved economic performance over the next ten years will be built on the following four broad platforms.

- A rising share of investment and saving out of national income.
- Progress in the quality of education and promotion of training opportunities.
- A poverty reduction strategy.
- Development of markets, support for emerging entrepreneurs, better governance and regulation of private and public sector institutions, and rigorous monitoring and measurement of public service delivery.

The socio-economic and political challenges are based on the needs and aspirations of our people as reflected in the Reconstruction and Development Programme. Towards this objective successive budgets have progressively extended the resource envelope devoted to services of our poor communities. A further challenge of the Reconstruction and Development Programme was building our economy. In our first decade of democracy we have witnessed an average economic growth rate of 2,8 percent, productivity has increased considerably and many industries have successfully adapted to international competition. Investment in industry and an expansion of job opportunities as well as accelerated growth rate remain critical challenges for the decade ahead.

Fiscal consolidation, expenditure reprioritisation, lower budget deficit, improved management of public debt, lower interest rates and a buoyant tax structure continues to be the firm foundation for long-term growth and development. Although exchange rate volatility remains a concern, the South African economy is in a much better position to take advantage of the emerging global economic recovery in this second decade of democracy.

The construction of a vibrant democratic State, founded on the rule of law, has been an unparalleled success. We have also encouraged capacity building of our institutions for better service delivery, based on the spirit of batho pele. At municipal level, which is at the coalface of service delivery, the implementation of the Municipal Finance Management Act with effect from 1 July 2004 will drive key financial reforms for the local sphere of government in the coming period.

As a country we are alive to our human resource challenges. Education, training and skills development have been prioritised over the past decade. For the decade ahead, investment in quality education and promotion of work-related training would remain amongst the foremost priorities of Government.

The Financial Sector Charter signed on 17 October last year is an important milestone in the evolving framework for empowerment and broadening participation in the economy.

Increasing cooperation with NEPAD and the AU will remain on our agenda. Through NEPAD and the African Peer Review Mechanism, we will endeavour to foster a developmental agenda for Africa based on sound political, economic and corporate governance systems to underpin sustainable economic growth. We will remain seized with the challenge of encouraging South-South cooperation and bridging the South-North divide.

I would like to express my gratitude for the dedication and commitment shown by the National Treasury staff under the able stewardship of the Director-General, Mr Lesetja Kganyago.

Trevor Manuel
Minister of Finance

OVERVIEW BY ACCOUNTING OFFICER

The 2004/05 fiscal year will be my first as accounting officer of the National Treasury. The main strategic task that faces the Treasury in the decade ahead is to use the macroeconomic stability and healthy state of public finances to accelerate economic growth and enhance social development to improve the lives of all South Africans. Economic growth and prudent fiscal management are not ends in themselves; they are critical to sustaining the development agenda in the long term.

President Thabo Mbeki has identified the creation of jobs and the alleviation of poverty as central goals for the third term of Government. While economic management may often seem to have many diverse and complex objectives, we must remain firmly focused on the end goals of raising employment, fighting poverty and reducing inequality. Our task as officials is to translate these high level objectives into programmes and projects that give substance to the policy objectives of Government.

Increasing investment in economic and social infrastructure, building human capital, balancing social security with expanding employment opportunities and improving the capacity of Government and regulatory agencies will form the main pillars of the Treasury's strategy over the next five years. In addition, the National Treasury will expand its role in developing regional economic recovery and integration in pursuit of the objectives of NEPAD. While the Treasury does not deliver services to citizens directly, we play a critical role in aligning the overarching policy priorities with available resources.

Over the next five years the Treasury will deepen the budget reform agenda started over a decade ago. This agenda will focus on: increasing political and legislative oversight of spending decisions and service delivery, using measurable objectives to improve the quality of spending and finally, incorporating non-business public entities more integrally into the budget process. In preparing the 2005 Budget, greater attention will be paid to long-term expenditure drivers such as demographic projections on school enrolment, social security grant take-up, analyses of trends in university and technikon enrolment, trajectories of HIV and Aids infection and long-term human resources planning for the civil service.

Over the course of the 2004 MTEF, the Treasury will review the successes of implementing the Public Finance Management Act with a view to improving financial governance, particularly over public entities. The Treasury will focus on improving performance accountability, by focusing future budget and financial management reforms towards sharper outputs and performance accountability. The introduction this year of a standardised chart of accounts and a new economic reporting format will play an important role in improving financial management information in the public sector.

The same reforms on budgeting, financial management and performance accountability will also be given impetus in all municipalities with the launch of the MFMA this year. A detailed implementation plan with a strong emphasis on capacity building is being launched. The Act will be phased in, with quicker implementation times for metro and other large municipalities.

Taking into account of new census data and significant shifts in the powers and functions of municipalities and provinces, the provincial and local government equitable share and conditional grant formulae are being revised with a view of tabling new allocation criteria with the Medium Term Budget Policy Statement in October or November 2004. A broader fiscal framework review for the two spheres is also underway, for completion over the next two years. Together with our partners in provincial treasuries, further strengthening of provincial finances will be a strategic priority. The shift of social security payments to the national sphere will introduce a number of complexities in fiscal relations between the national government and provinces. Phasing in a new equitable share formula that takes account of this major function shift and of broader developmental challenges will require careful management and oversight by the Budget Council. Key priorities for the Budget Council will be to balance the need for sustained improvement in service delivery in education and health, and a higher level of social and economic infrastructure spending.

In 2003, the Treasury conducted research into the macroeconomic impact of introducing an anti-retroviral programme for people infected with Aids. Now that the economic modelling capacity of the Treasury is firmly entrenched, further work will focus on strengthening the link between microeconomic policies and macroeconomic outputs. For example, further work is required to assess the macroeconomic impact of infrastructure investments, job creation programmes such as the expanded public works programme and various tax measures designed to stimulate employment. The *macroeconomic policy* section will concentrate on issues that affect the ability of the economy to create employment, on lowering the costs of doing business and on improving the investment environment.

A memorandum of understanding between the Minister of Finance and the Governor of the Reserve Bank has been signed. Three working committees have been set up to improve policy coordination between the two. These committees relate to macroeconomic policy coordination and inflation targeting, banking and regulatory oversight, reserve management and cash management. The memorandum of understanding and the work of the committees will go a long way to enhancing coordination between fiscal and monetary policy.

The Treasury has played an increasingly important role in building. Over the next five years, the role of the Treasury will be to give economic content to the programmes of Nepad and the African Union. In the medium term, increasing economic integration within the SADC region will be a priority. As South African companies and public enterprises play a greater role in the development of the continent, so will the Treasury's role in facilitating economic development and promoting good economic governance. The developmental role that it plays on the African continent cannot be divorced from the role that South Africa plays in international financial institutions. Our involvement in the World Bank, International Monetary Fund and Global Financial Stability Forum is crucial in putting the issue of Africa's development on the world agenda. The Minister of Finance has recently been chosen to serve on the Commission for Africa. This Commission will present a report to the Presidency of the EU and G7 on possible solutions to the development challenges facing the continent. The National Treasury will play a key role in supporting the Minister's involvement in this important initiative.

Debt management activities ensure that we finance the government budget deficit with a view to minimising cost and risk. This means borrowing in the domestic and foreign markets, ensuring continued access to both markets and enhancing their liquidity through the issue of tradeable instruments, such as inflation-linked bonds. The Treasury will continue to use opportunities in the market to restructure our debt portfolio to reduce risk and borrowing costs in the long term. This year, we introduce a retail bond, targeted at individuals who wish to invest in secure, attractive, medium to long-term investment instruments. While raising revenue for Government is one economic objective, increasing the instruments for low- and middle-income savers is another. Our borrowing strategy is complemented by prudent cash-management activities. Asset Management will focus on the adherence of state-owned entities to the PFMA, ensuring that state-owned entities run treasury operations prudently and adhere to their core mandates.

The successful conclusion of the Financial Sector Charter in 2003 now leaves both the private sector and Government with much work to do in its implementation. The work of the Treasury in the process of implementing the Charter will be driven by the objectives of maintaining a sound financial services sector, extending financial services to the poor, increasing the level of investment in low and medium cost housing and raising infrastructure spending, especially in poor areas.

The new Accountant-General will be responsible for the implementation of the standard chart of accounts and the new economic reporting format across national and provincial Government. Over the next five years, the development and introduction of new accounting standards will be a key priority. Expanding the scope of our financial statements to include a broader definition of national government will also be investigated.

Management coordination and human resource development will remain key foci of the Treasury work programme over the next five years. We have appointed a Chief Operating Officer in the Office of the Director-General to manage interventions in three critical areas - strategic planning, targeted policy support and coordination, and streamlined administrative support and coordination.

Over the next five years, the Department intends to implement improved human resource processes, procedures and systems. Key among these is the implementation of new performance management and personal developmental systems, ensuring completion of performance contracts for all senior management and providing for further employee training and development at all levels.

This *National Treasury Strategic Plan for 2004-2007* provides details of our priorities and programmes for the period ahead. Read together with Vote 8 of the *2004 Estimates of National Expenditure*, our plan provides critical insight into the priorities and performance of the National Treasury team. We thank Minister Trevor Manuel, and our outgoing Deputy Minister, Mandisi Mpahlwa and our new Deputy Minister, Jabu Moleketi for their guidance and support.

Lesetja Kganyago
Director-General

VISION

The National Treasury is the custodian of the nation's financial resources. We hold ourselves accountable to the nation to discharge our responsibilities professionally and with humility, and with the aim of promoting growth and prosperity for all.

We aspire to the highest standards of financial management and fiscal discipline. We acknowledge the importance of delivering excellent service and in this endeavour to work as a team, planning with precision and executing with enthusiasm and commitment, striving at all times to improve our performance.

Our staff is a valued asset. We will invest in them, affording them opportunities to enhance their skills, to access the best technology and to advance their careers to their fullest potential.

In our dealings with the public and with our colleagues we will act transparently and with integrity, showing respect and demonstrating fairness and objectivity.

In achieving these things, we will honour the faith that the South African public has placed in us.

MISSION AND OBJECTIVES

The National Treasury aims to promote economic development, good governance, social progress and rising living standards through accountable, economic, efficient, equitable and sustainable management of public finances.

We endeavour to advance economic growth and income redistribution and to prepare a sound and sustainable national Budget and equitable division of resources between the three spheres of government.

We strive to equitably and efficiently raise fiscal revenue while enhancing the efficiency and competitiveness of the South African economy and to manage Government's financial assets and liabilities soundly.

We promote transparency and enforce effective financial management.

VALUES

As custodians of the nation's financial resources, the National Treasury is accountable to the nation through public and parliamentary process. We discharge our responsibilities professionally and with humility and adhere to the highest standards of financial management and fiscal discipline.

We value teamwork, sound planning and enthusiasm and always strive to improve our performance. Respect for and investment in our staff is an important part of our values.

The National Treasury will act transparently, with integrity, respect, fairness and objectivity and we honour the faith of the South African public.

LEGISLATIVE MANDATES

With its role defined within the Constitution of the Republic of South Africa and in the Public Finance Management Act, the National Treasury is responsible for promoting the national Government's fiscal policy framework and coordinating macroeconomic policy. We coordinate intergovernmental financial and fiscal relations and manage the budget preparation process. The National Treasury exercises control over the implementation of the annual national Budget, including any adjustments Budgets. We facilitate the implementation of the annual Division of Revenue Act, monitor the implementation of provincial budgets and promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities of departments, public entities and constitutional institutions. We also perform other functions assigned to the National Treasury in terms of these Acts.

SERVICE DELIVERY ENVIRONMENT

The National Treasury service delivery environment is contextualised by our aim to promote economic development, good governance, social progress and raising the living standards of our people. Our policy priorities are implemented through the Departments eight programmes. Financial and fiscal reform remains a key outcome of National Treasury activity with the objective to achieve sustainable growth and development, job creation and poverty eradication. Ongoing improvements in our budgetary system continue to enhance transparency and accountability. Reforms in government procurement and the introduction of a broad-based supply chain policy framework served to enhance efficiency and meet the government's BEE objectives.

We continue to improve financial management such as the reform in the formats for financial reporting for national and provincial government and moving to a full accrual basis of accounting based on the standards set by the Accounting Standards Board.

Macroeconomic policies

Government's macroeconomic policies aim to meet the challenges of South Africa's social and economic development in the context of an increasingly inter-dependent global environment. This includes deepening South Africa's financial markets, gradually liberalising exchange controls, improving financial sector oversight and regulation, enhancing consumer protection and combating money laundering and terrorism financing. The National Treasury is actively engaged in the development of the Southern African region through co-operation with neighbouring SADC countries on issues such as taxation, promoting investment and economic integration within the region.

Intergovernmental Fiscal Relations

The building of solid intergovernmental financial and fiscal relations system is important for service delivery and efficiency in government spending. A major area of progress and development is the National Treasury's relationship with other spheres of government. New frameworks for the allocation of grants to provinces and local government provide sharper definitions of the purpose and intended outputs for each grant. This enhances transparency and is expected to lead to further improvements in service delivery. The ongoing evolution of the system of intergovernmental fiscal relations will be achieved at the provincial and local levels by rationalising grants to ensure that there are fewer, but better administered grants. With the turnaround in provincial infrastructure investment, the main focus over the medium term will be to use infrastructure delivery to accomplish other government objectives. More specifically, the priority will be to facilitate employment through labour-based and labour-intensive projects. In addition, future initiatives will focus on institutionalising good practices in relation to infrastructure planning, supply-chain management (procurement) and 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, targeted support will be provided to municipalities to improve their financial management capacity and to strengthen the link between policy, planning and budgets. These reforms have been piloted in selected municipalities and are being rolled out countrywide over the medium term. This will ensure even greater transparency in resource allocation and reporting, and will, over time, further enhance accountability and service delivery.

Implementing the PFMA

The successful implementation of the Public Finance Management Act since 2000 laid a solid foundation for the rollout of the Municipal Finance Management Act. The MFMA, which seeks to introduce similar financial management reforms at local government level, was launched in April 2004. Both the PFMA and the MFMA are key elements in transforming public sector financial management and is one of National Treasury's key objectives.

Over the next few years the Treasury will be commissioning high quality, short courses for all government officials to build the necessary capacity to effectively implement the Acts. It is rolling out financial management systems, which will ensure not only the transparency of expenditure but also the effective and efficient use of scarce resources to achieve social transformation. These systems for enhancing the integrity and effectiveness of supply-chain and expenditure management are part of the PFMA implementation and have been among national Treasury's most important reforms.

Appropriate tax policies

Reviewing the taxation of retirement savings, introducing a mining royalty tax, considering tax measures to support investment and enhancing revenue-estimation capacity form part of the development of appropriate tax policies for the country.

The South African Revenue Service, a public entity reporting to the Minister of Finance, has consistently exceeded its revenue targets and has been highly efficient and effective in its revenue collection. It has introduced electronic filing and payments, implemented a Capital Gains T ax, changed taxation from source-based to residence-based, and also developed a risk management approach to compliance, with emphasis on measuring the tax gap and identifying high-yield strategies.

Managing public sector debt

Another priority for the National Treasury is the prudent management of government's financial assets and liabilities, including the domestic and foreign debt portfolios. Since 1999, the debt management strategy has evolved from strategic debt management, where the primary focus was on access to capital markets and the maintenance of a balanced maturity profile. The focus has shifted to active debt management, where government's borrowing requirement is financed at the lowest possible cost within acceptable levels of risk. Strategies are in place to meet government's borrowing requirement over the medium term. In addition, the Treasury is also improving its cash management processes, enabling it to use surplus cash from the provinces. This strategy has a positive impact on government's cost of financing.

ORGANISATIONAL ENVIRONMENT

An important element of the National Treasury organisational environment is the appointment of our new Director-General, and three new Deputy Directors-General and the Chief Operating Officer. The new Director-General has an opportunity to build on the foundation of a strong National Treasury team and to build a management team that will take the Department into the next decade.

With the major restructuring of National Treasury completed in 2003/04, we continue to fill some of the vacant posts throughout the organisation in a phased manner while the refinement and improvement of the structure is ongoing.

The next year will also see the refurbishment of the 240 Vermeulen Street building completed, revision of the internal arrangements in 40 Church Square to optimise accommodation arrangements for divisions, and refurbishment of the Cape Town office at 120 Plein Street. The ongoing improvements in accommodation are definitely contributing to a better working environment for National Treasury staff.

Plans to restructure the National Treasury's IT architecture is in progress. A Departmental IT Committee spearheads and extensive re-evaluation of our IT requirements and the reshaping of our IT focus over the medium term.

The implementation of the PFMA within National Treasury is ongoing and suggests a good record thus far. Regular meetings of both our Audit Committee and Risk Management Committee ensures proper internal controls as well as good risk management and fraud prevention policies and practices.

RESOURCE PLAN
Expenditure estimates

Table 1: National Treasury

Programme		Medium-term expenditure estimate		
	Adjusted appropriation			
R thousand	2003/04	2004/05	2005/06	2006/07
1 Administration	111 890	101 879	104 728	111 179
2 Economic Planning and Budget Management	128 263	140 207	150 952	161 772
3 Asset and Liability Management	42 831	42 271	45 304	48 403
4 Financial Management and Systems	370 950	352 455	365 623	381 492
5 Financial Accounting and Reporting	63 323	66 182	74 300	81 620
6 Provincial and Local Government Transfers	3 284 318	3 889 260	4 279 513	4 666 776
7 Civil and Military Pensions, Contributions to Funds and Other Benefits	2 449 569	2 163 966	2 293 804	2 431 432
8 Fiscal Transfers	6 142 152	7 185 511	7 273 184	7 734 830
Total	**12 593 296**	**13 941 731**	**14 587 408**	**15 617 504**
Direct charge on the National Revenue Fund	**191 939 572**	**210 403 402**	**227 837 535**	**244 336 726**
Provinces Equitable Share	144 742 572	159 971 402	173 851 535	186 391 726
State Debt Costs	47 197 000	50 432 000	53 986 000	57 945 000
Total	**204 532 868**	**224 345 133**	**242 424 943**	**259 954 230**
Change to 2003 Budget Estimate	(611 469)	2 537 375	5 961 725	
Economic classification				
Current payments	**49 281 023**	**52 606 158**	**56 287 156**	**60 383 066**
Compensation of employees	1 590 530	1 705 076	1 818 366	1 931 675
Goods and services	493 493	469 082	482 790	506 391
Interest and rent on land	47 197 000	50 432 000	53 986 000	57 945 000
Financial transactions in assets and liabilities				
Unauthorised expenditure	-	-	-	-
Transfers and subsidies to:	**155 220 966**	**171 726 958**	**186 125 487**	**199 557 529**
Provinces and municipalities	148 027 479	163 861 143	178 131 549	191 059 048
Departmental agencies and accounts	5 634 064	6 775 489	6 886 983	7 314 010
Universities and technikons	-	-	-	-
Foreign governments & international organisations	491 943	391 590	368 694	404 316
Public corporations & private enterprises	40 374	40 001	40 001	40 000
Non-profit institutions	52	55	58	62
Households	1 027 054	658 680	698 202	740 093
Payments for capital assets	**30 879**	**12 017**	**12 300**	**13 635**
Buildings and other fixed structures	-	-	-	-
Machinery and equipment	30 879	12 017	12 300	13 635
Cultivated assets	-	-	-	-
Software and other intangible assets	-	-	-	-
Land and subsoil assets	-	-	-	-
Total	**204 532 868**	**224 345 133**	**242 424 943**	**259 954 230**

Expenditure trends

The National Treasury vote is dominated by transfer payments in the Provincial and Local Government Transfers, Fiscal Transfers, and Civil and Military Pensions, Contributions to Funds and Other Benefits programmes. Over the medium term, these transfers make up on average 95,0 per cent of the total budget.

In 2003/04 National Treasury's budget increased by 27,9 per cent as a result of R419,3 million rolled over from 2002/03, mainly for the transfers to Lesotho and Namibia and to local government for restructuring, and an additional amount of R400 million for additional service benefits for retiring members of Parliament and members of provincial legislatures.

Whilst the Treasury's core budget, comprising programmes 1 to 5, only grows at an average annual rate of 3,0 per cent over the medium term, the remainder of Treasury's budget, which is dominated by transfers, grows by an average annual rate of 7,7 per cent over the medium term. The core budget of National Treasury is R717,3 million in 2003/04 - the expected outcome on this is R603,4 million. Over the next three years the core budget is R703,0 million, R740,9 million and R784,5 million.

Direct charges from the National Revenue Fund

National Treasury is responsible for the main statutory transfers of funds to provincial governments. This is in terms of the constitutional requirement that they obtain an equitable share of revenue raised through national taxes. The equitable share transfers to the provinces will grow at an average annual rate of 8,8 per cent over the medium term. More information on these transfers can be found in chapter 7 and annexure E in the 2004 Budget Review and the 2004 Division of Revenue Bill.

In addition, the National Treasury vote includes provision for servicing government's debt obligations, which are direct charges against the National Revenue Fund in terms of section 73 of the PFMA. The provision for state debt costs will increase at an average annual rate of 7,1 per cent over the medium term. The 2003/04 provision for state debt costs decreases by R3,7 billion in the Adjusted Estimates, mainly due to lower domestic interest rates and lower foreign interest payments because of the appreciation of the rand.

PROGRAMME STRATEGIC PLANS

National Treasury

PROGRAMME 1

ADMINISTRATION

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

Measurable objective: The programme aims to provide an effective management and administrative support service to the core business divisions within National Treasury through continuous refinement of organisational strategy and structure to ensure compliance with applicable legislation and appropriate best practices.

The programme is divided into five subprogrammes:

- The *Minister* subprogramme provides for the Ministry of Finance and includes Parliamentary and Ministerial support services.
- The *Deputy Minister* subprogramme provides for the Office of the Deputy Minister of Finance and related support services.
- *Management* funds the Office of the Director-General and related support services.
- *Corporate Services* supports the administration and smooth running of the Department.

Policy developments

The Minister of Finance, as a Member of Parliament, places a high premium on the Ministry's interaction with the Legislature. The Ministry ensures active collaboration with Members of Parliament and with the parliamentary committees on an ongoing basis. Key to this objective is the *Parliamentary Office* which is located in the *Ministry*.

Headed by a director, the *Parliamentary Office* has to foster a transparent and cooperative working environment with Parliament. It is the representative office of the Minister of Finance at Parliament and the vehicle through which financial policies and procedures, and legislation are presented to Parliament for consideration and approval.

The *Parliamentary Office* facilitates the flow of information from the Treasury via Cabinet to Parliament. It serves a liaison role by ensuring that parliamentary decisions are forwarded to Treasury and, in this way, policy drafters are kept abreast of the views of public representatives.

The *Parliamentary Office* is essentially a service provider to the Minister of Finance, the three departments under his executive authority (the National Treasury, the South African Revenue Service and Statistics South Africa) and the two chairpersons of the respective finance committees in Parliament.

Over the next three years the *Parliamentary Office* aims to build on the Minister's proactive relationship with Parliament, maintaining collegial and cooperative relationships with political structures and parliamentary committees, in particular the recently established Budget Committee.

The *Parliamentary Office* intends playing a crucial supporting role when the National Treasury engages with Parliament regarding progress on the budget reform programme, with specific reference to the Constitutional requirements for money bill amendment powers. It will also serve as the conduit through which the National Treasury presents draft financial legislation and policies to the Legislature over the MTEF.

As the Head of National Treasury *Management* and at the hub of Government business, the Director General of the National Treasury faces a wide range of responsibilities and demands, many of which are notably strategic in respect of Government's political and economic direction.

These responsibilities, when placed on the shoulders of a single individual, demand extra-ordinary, technical and managerial skills, effort and commitment.

Strategic support to the Director-General is based on interventions in three critical areas – managerial support and coordination, targeted policy support and coordination, and streamlined administrative support and coordination.

The Chief Operating Officer has been appointed to provide critical strategic management support and coordination to the Director-General. The Director-General retains executive oversight. The model provides for the delegation of work to a senior manager at the level of Deputy Director General, in the same manner as the other eight divisional heads.

The *Corporate Services* division manages the *Administration* programme. The division is responsible for financial management and administration within the National Treasury and aims to create a productive and creative working environment that enhances departmental efficiency.

The division consists of four units – Human Resources Management, Financial Management, Legal Services and Communication and Information Technology – that provide the backbone support-service operations to the core business of the National Treasury.

The Human Resources Management unit is responsible for attracting and retaining talent for the National Treasury. Driven by its vision of making National Treasury an "employer of choice", the focus for the next five years is on developing and implementing strategies to attract, motivate, develop, and retain talent for the National Treasury. This also includes ensuring that the environment is non-discriminatory and supportive towards the implementation of these strategies.

In 2003/04, considerable effort went into developing and implementing improved human resource processes, procedures and systems. Key among these, was the implementation of new performance management and personal development systems, ensuring that all employees have performance agreements and that further training and development is provided at all levels. The recruitment, selection and placement function to ensure that critical core skills for the National Treasury are attracted and the Department is marketed as an "employer of choice". More programmes have been identified for 2004/05 financial year.

The financial year 2003/04, was also marked by the implementation of the Education, Training and Development strategy to enhance employees' skills at all levels. This included implementation of mandatory programmes, including leadership, management and supervisory development programmes, and an internship programme.

Over the next five years, the Human Resources Management unit intends developing and implementing a customer charter aimed at improving the unit's performance and service delivery by further fine-tuning procedures, processes and systems. This will also include a benchmarking exercise to ensure that the human resources function keeps abreast with the latest developments and international best practices in the human resources field. Legislative compliance with the requirements of all relevant legislation continues to be the main focus of this unit.

The *Financial Management* unit is focused on maximising compliance with all relevant financial statutes and regulations – the most important of which is the Public Finance Management Act (1 of 1999) (PFMA) – and providing excellent service to its customers, both internal and external.

The unit has largely achieved compliance in these areas. The focus going forward will be on maintaining compliance and enhancing our service delivery to our customers.

The Regulatory Framework for Supply Chain Management took effect from 5 December 2003. This Framework serves as a formal requirement to accounting officers to ensure the implementation of the supply chain management process as an integral part of their financial systems. It also requires accounting officers to develop and implement an effective and efficient supply chain management system, and to establish a separate supply chain management unit within the Chief Financial Officer's structure. The Department has made considerable progress in the implementation of the decentralised procurement system. The appointment of a Procurement Director during 2003 has given the unit additional capacity and a strategic focus on improving processes. The focus going forward will be on finalising a supply chain management policy that is in line with the Framework and practice notes issued by the Department.

A Director for *Security and Facilities Management* was appointed in 2002 and has since developed this key support service within the National Treasury. Further security and facilities policies and procedures will be developed and implemented to ensure the continual safety and security of personnel, information and assets. Key projects in progress include the vetting of all personnel and the development of a security manual.

The Information Technology Systems unit sets out details on the information technology systems and strategic focus over the next three years. It should also note how effectively systems are being used and what the department is doing to ensure that staff is appropriately trained to utilise the IT system. This unit has grown from strength to strength over the past year. It has become a strategic unit within the organisation acting as a pillar in the daily operations of the National Treasury. The restructuring project has provided strategic direction within the unit. This has resulted in the unit refocusing on improving the quality of service being delivered and the involvement in all facets of the business.

Business information technology requirements have been identified and processes have been initiated to address the needs. This includes the move towards a paperless environment, ultimately automating routine tasks within the organisation. This project is due for completion in June 2005.

The redesign of the current Network Operating Systems has been completed and is scheduled for an upgrade to a newer version, which will be, implemented in the latter half of 2004. This will include enhancement to existing authentication, security and messaging systems.

Existing systems have been finely honed to ensure effective service delivery to all stakeholders. In conjunction with the current support services, which are outsourced to two contract houses, and with the support of the State Information Technology Agency all processes have been streamlined. Custom-developed systems have successfully been implemented which includes asset and document tracking systems.

Communication in the National Treasury centres on the provision of a strong media-liaison service for the Ministry and Department. The divisional heads continue to feature strongly in the media, ensuring that the broader National Treasury leadership is introduced to the public. Major media and communication events include the annual Budget tabled in Parliament, the Medium Term Budget Policy Statement, the annual meetings of the International Monetary Fund and the World Bank.

The *Legal Services* of the National Treasury furnishes a comprehensive and fundamental legal support function to the Department and the Ministry. The National Treasury intends to strengthen the unit over the next three years to enable it to provide legal services on a wider range of domestic and international finance legislation, general legal services, cost effective litigation and advice on corporate related matters, with an emphasis on providing legal advice for purposes of managing Government risks, and assets and liabilities. This year the unit will continue to focus on developing Treasury-specific policy, procedures and training in respect of new legislation.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 1: Administration

Measurable objective: To improve the quality of financial reporting by ensuring that appropriate policies and procedures are developed and implemente

Subprogramme	Output	Measure/Indicator	2004/05 Target Milestone	2005/06 Target Milestone	2006/07 Target Milestone
Minister and Deputy Minister of Finance (Parliamentary Office)	A procedurally sound and politically astute Parliamentary unit	Achieving a proactive relationship with Parliament	Unit providing support to new Members of Parliament in developing relationship with National Treasury	Proactive support established	Review done
	Extensive engagement with the Legislature on the budget reform processes, with specific reference to the Constitutional requirement for a process to deal with money Bills	The number of dialogue/meetings held between the National Treasury and Parliament on the budget reform processes, with specific reference to the Constitutional requirement for legislative powers and processes to amend money Bills	Legislation that facilitates amendment to money Bills promulgated	Monitoring feedback from all role players for evaluation of Act	Review done
	Monitoring and facilitating promulgation of financial legislation and policies that are presented to the Legislature	Monitoring the passage of legislation from drafting to enactment	Monitoring and facilitating promulgation of the Financial Services Bill (establishing a single financial Regulator) and the Accounting Profession Bill	Monitoring and facilitating promulgation of identified financial legislation and policies	Review done
	Providing continued parliamentary service to the Ministry and its Departments	% satisfaction of the Minister, Deputy Minister and the Director-General regarding quality of parliamentary services provided	100% satisfaction		
Management (Office of the Director-General)	Internal and external communication programme and new corporate image	% Increase in visits to the Intranet (staff) and the National Treasury website (public)	Implementation of mobile-device access to Internet and Intranet sites 100% by 30 June 2004	Interactive Internet and Intranet sites 100% by 30 June 2005	Review done

Subprogramme	Output	Measure/Indicator	2004/05 Target Milestone	2005/06 Target Milestone	2006/07 Target Milestone
Corporate Services	Full compliance with PFMA	Unqualified audit	31 July 2004	31 July 2005	31 July 2006
	Implementation of transformation programme through restructuring and enhanced HR systems	% Of policies and procedures finalised	100% of policies and procedures finalised by 31 March 2005	Develop new policies and procedures that arise	Develop new policies and procedures that arise
	Improve leverage of IT investment	% Implementation of new & updated IT systems	Implementation of technical redesign 100% by 30 June 2004	Implementation of paperless and completely mobile environment 100% by 30 June 2005	Review done
	Diverse legal and legislative services	Meet divisional legal services needs in terms if time and quality. Draft Bills of quality introduced on time,cost effective litigation	Throughout 2004/05 as required by divisions As determined by the relevant divisions	Throughout 2005/06 as required by divisions As determined by the relevant divisions	Throughout 2006/07 as required by divisions As determined by the relevant divisions
	Efficient and effective service delivery against predetermined standards and measures	Service charter in place, and Processes/procedures streamlined	31 December 2004 31 December 2004	Review done Review done	
	National Treasury as an employer of choice	• Attraction, motivation, development and retention of talent;	Policy and system finalised by 31 December 2004	Full implementation of policy and system	Review done
		• State-of–the-art modern Effective and Efficient Functioning Information Technology (EEF IT) work systems and processes (targets/ milestones are the same as for the output "Improve leverage of IT investment");			
		• Paperless environment (targets/milestones are the same as for the output "Improve leverage of IT investment");			

Subprogramme	Output	Measure/Indicator	2004/05 Target Milestone	2005/06 Target Milestone	2006/07 Target Milestone
		• Health and safe hygienic business environment; and	Structure and system in place by 31 December 2004	Safety audit compliance	
		• Modern facilities (work area, refurbished building, security systems, etc).	Ongoing	100% implemented by 31 December 2005	Review done

RESOURCE PLAN
Expenditure estimates

Table 2: Administration

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2003/04	2004/05	2005/06	2006/07
Minister	746	791	831	872
Deputy Minister	552	585	614	645
Management	16 809	25 635	27 124	28 630
Corporate Service	93 783	74 868	76 159	81 032
Total	**111 890**	**101 879**	**104 728**	**111 179**
Change to 2003 Budget Estimate	9 508	3 281	(762)	
Economic classification				
Current payments	**90 717**	**98 429**	**100 813**	**106 424**
Compensation of employees	43 449	46 577	48 951	51 882
Goods and services	47 268	51 852	51 862	54 542
Interest and rent on land	–	–	–	–
Financial transactions in assets and liabilities	–	–	–	–
Unauthorised expenditure	–	–	–	–
Transfers and subsidies to:	**246**	**287**	**289**	**319**
Provinces and municipalities	113	147	149	159
Departmental agencies and accounts	133	140	140	160
Universities and technikons	–	–	–	–
Foreign governments & international organisations	–	–	–	–
Public corporations & private enterprises	–	–	–	–
Non-profit institutions	–	–	–	–
Households	–	–	–	–
Payments for capital assets	**20 927**	**3 163**	**3 626**	**4 436**
Buildings and other fixed structures	–	–	–	–
Machinery and equipment	20 927	3 163	3 626	4 436
Cultivated assets	–	–	–	–
Software and other intangible assets	–	–	–	–
Land and subsoil assets	–	–	–	–
Of Which: capitalised compensation	–	–	–	–
Total	**111 890**	**101 879**	**104 728**	**111 179**

Provinces and Municipalities				
Municipalities				
Current	**113**	**147**	**149**	**159**
Regional Services Council levies	113	147	149	159
Departmental agencies and accounts (Entities)				
Current	**133**	**140**	**140**	**160**
Finance, Accounting, Management, Consulting and other Financial Services (Fasset) Sector Education and Training Authority	133	140	140	160
Total	**246**	**287**	**289**	**319**

Expenditure trends

Expenditure on the programme falls from a high of R111,9 million in 2003/04 to R101,9 million in 2004/05, before rising to R111,2 million in 2006/07.

Expenditure in Administration increased by 72% in 2002/03, mainly owing to the enhanced structure of the Office of the Minister and the Office of the Director-General, the rise in spending owing to the restructuring of National Treasury, as well as once-off costs for the occupation and renovation of the 240 Vermeulen Street building. In 2003/04 R9,0 million was rolled over from 2002/03 towards the refurbishment and renovation of 240 Vermeulen Street. Renovation of the 240 Vermeulen Street building is expected to be completed in 2004/05 and work on the renovation of the Centurion building and 120 Plein Street is scheduled for this year. Administration makes provision for a legal budget of R4,0 million per year to assist in the passage and implementation of significant pieces of legislation.

PROGRAMME STRATEGIC PLANS

National Treasury

PROGRAMME 2

ECONOMIC PLANNING AND BUDGET MANAGEMENT

Purpose: *Economic Planning and Budget Management* provides for professional advice and support to the Minister of Finance on economic and fiscal policy, international financial relations, financial regulation, tax policy, intergovernmental financial relations, public finance development and management of the annual Budget process.

Measurable objective: The programme aims to promote growth, social development and poverty reduction through sound economic, fiscal and financial policies, efficient revenue measures and effective, efficient and appropriate allocation of public funds. The programme is organised into four divisions:

- *Public Finance* manages the National Treasury's relations with other national departments, provides budgetary support to departments and advises the Minister and the rest of the National Treasury on departmental and sectoral matters. The key focus areas are departmental and sectoral financing and budgeting; monitoring of financial management, expenditure and service delivery; policy analysis and policy development support; and through the Technical Assistance unit, support for reconstruction and development project management.
- The *Budget Office* provides fiscal policy advice, oversees the national Budget process, leads the national budget reform programme, coordinates international technical assistance and donor finance, supports public-private partnerships and compiles the public finance statistics.
- *Intergovernmental Relations* coordinates fiscal relations between national, provincial and local government and promotes sound provincial and municipal budgetary planning, reporting and financial management.
- *Economic Policy and International Financial Relations* is responsible for the development of a macroeconomic framework on which the budget is based, providing macroeconomic analysis and policy advice, managing international financial relations, tax policy formulation and the development of tax legislation, and coordinating with the South African Reserve Bank and the Financial Services Board on banking and non-banking financial services regulation.

Policy developments

Budget Office

The main output of the *Budget Office* is the annual Budget and Medium Term Expenditure Framework that the Minister of Finance tables in Parliament in February each year.

Much of the work of the *Budget Office* is accordingly focused on coordinating Government's spending and revenue plans with its longer term policy and strategy priorities. A key element of the budget reform programme is increased political oversight over the annual budget process. The *Budget Office* provides secretarial and professional support for the Minister's Committee on the Budget.

The Expenditure Planning team in the *Budget Office* will continue to work in partnership with national departments, enhancing and strengthening the measurable objectives, output measures and service-delivery target information as set out in the annual *Estimates of National Expenditure*. The publication of measurable objectives for each programme, in line with the PFMA, reflects a commitment to improved service delivery, greater transparency and increased accountability. New formats for in-year expenditure monitoring and quarterly non-financial reporting against measurable objectives will be introduced over the year ahead. Collaboration with other African countries in budget reform and expenditure management is a further area of increased activity.

While the channels through which fiscal policy contributes towards enhanced growth and development are often well understood, the scale of and interaction between their effects remain the subject of empirical analysis. Recognising this, the *Budget Office* continues to strengthen fiscal analysis capacity, deepening understanding of fiscal trends in the economy and their effect on long-term growth and investment.

Increased spending on infrastructure investment has a significant impact on economic growth and the expansion of service delivery. Improving the planning, coordination and monitoring of infrastructure spending and projects of a capital nature is a key priority for the year ahead.

The *Public Private Partnership (PPP)* unit has an increasing portfolio of projects under planning or review. It is also actively involved in training and capacity building in support of national and provincial project development and contract management. Project design and specification will benefit in the years ahead from the recently completed Standardised Provisions for Public-Private Partnerships. A quarterly review of PPP developments is published by the unit, in association with the PPP Resource Centre of the National Business Initiative. The unit's scope of work has been extended to include Schedule 3 public entities, and enhanced collaboration with the Municipal Infrastructure Investment unit and several major public entities is anticipated for the years ahead.

Together with the Department of Public Service and Administration, the Treasury has embarked on a comprehensive review of the governance of public entities. The project will be completed during 2004 and will lead to proposals and draft legislation to simplify and modernise the classification, governance, accountability, human resource management and performance management of all national Schedule 3 entities.

In the public-finance statistics arena, a new economic classification for the Budget and a corresponding new Chart of Accounts have been introduced in 2004. Refinement and consolidation of this reform will continue over the year ahead, contributing in due course to the broader reform of government accounting and the adoption of accrual-based accounting standards.

Since 1994, South Africa has benefited from an increasing flow of foreign grants and technical cooperation. This now includes some 30 international framework co-operation agreements, which, since 2001/02, have contributed approximately R1,6 billion (or 0,5 per cent of consolidated revenue) annually.

Over the next three years, development cooperation will focus on further strengthening the alignment of official development assistance with government spending. Key considerations are the optimal utilisation of limited resources in support of South Africa's development priorities, ensuring long-term sustainability beyond the phase of foreign support, and strengthened South African ownership of foreign assistance programmes and projects. Planning and monitoring of international development assistance has been recently enhanced by the introduction of a web-based ODA information system.

Public Finance

The *Public Finance* teams are the Treasury's links with the policy and budget teams of all national departments and other government entities. Better budgeting at the national level depends largely on these teams developing good, cooperative relationships with their line departments, enhancing policy and expenditure management and oversight at the national level.

The responsibilities of the division are divided among four teams, which span the range of Government services and functions:

- *Social Services* liaises with the Departments of Health; Education; Social Development; Labour; Arts and Culture; Science and Technology; and Sports and Recreation.
- *Economic Services* works with the Departments of Agriculture and Land Affairs; Environmental Affairs and Tourism; Communications; Minerals and Energy; Housing; Transport; Trade and Industry; and Water Affairs and Forestry.
- *Protection Services* deals with the Departments of Defence; Safety and Security; Justice and Constitutional Development; Correctional Services; the Independent Complaints Directorate; and the Secret Services.
- *Administrative Services* includes Parliament; the Presidency; the Departments of Home Affairs; Foreign Affairs; Provincial and Local Government; Public Works; Government Communication and Information System; National Treasury; Public Enterprises; Public Service and Administration; the Public Service Commission; the South African Management and Development Institute; and Statistics South Africa.

Transforming public-sector financial management is a key objective of National Treasury. The *Public Finance* teams facilitate implementation of the PFMA and Treasury Regulations within national departments, public entities and constitutional institutions, providing and overseeing appropriate systems for monitoring and managing expenditure. Their work also includes monitoring service delivery and engaging and analysing key sectoral policies that drive spending and service delivery in support of sustainable growth and development.

Priorities of the *Social Services* team for the years ahead include:

- Support for joint intergovernmental technical committees in the health, education and social development functions;
- Review of the provincial equitable share formula and grants programmes, in association with the *Intergovernmental Relations* division;
- Assistance to the Social Development Department relating to the establishment of a national Social Security Agency;
- Support to the Departments of Education and Labour relating to the consolidation and renewal of further education colleges and the strengthening of the skills development programme;
- Restructuring and financial consolidation of higher education institutions, and

introduction of the new higher education financing arrangements;
- Participation in inter-departmental research and policy development relating to demographic and employment trends, income distribution and the incidence of public expenditure and revenue;
- Health sector reform, including the oversight and regulation of the medical schemes industry, financing and management of public health services and implementation of the comprehensive HIV and Aids strategy; and
- Comprehensive social security - policy, financing and institutional development.

Much of the work of the *Economic Services* team is focused on strengthening infrastructure investment and sharpening the growth and employment impact of government programmes in the economic sector. Key activities include:
- Policy and financing of rural development and agricultural support for small farmers, targeted particularly at beneficiaries of land reform programmes;
- Review of housing policy, spatial development and options for enhancing the quality and pace of investment in residential and urban infrastructure;
- Assessment of options for fiscal support for broad-based black economic empowerment;
- Assistance to the Department of Trade and Industry in the adjudication of projects qualifying for critical infrastructure funding support, and oversight of industrial development zones and incentive programmes;
- Development of regulatory impact assessment capacity and improved oversight of administered prices;
- Support for the Department of Water Affairs and Forestry in its review of options for funding and governance of water resources and services; and
- Review of options for financing transport infrastructure and commuter services.

The *Protection Services* team contributes to policy and budget planning in part through its role in an interdepartmental review team of the integrated justice sector cluster. Projects and initiatives include:
- Investment in information systems to improve coordination and document management throughout the justice and protection services sector;
- Research and planning aimed at reducing overcrowding in prisons, planning and oversight of construction of new prisons;
- Assistance to the Department of Defence and the SAPS relating to transfer of personnel and establishment of a new protection service division within the SAPS;
- Oversight of the special arms procurement programme of the SANDF and assistance relating to budgeting and financing peacekeeping operations; and
- Reform of the budgeting and parliamentary oversight of constitutional entities.

The *Administrative Services* team has the following challenges for the year ahead:
- Assisting the Public Works Department in managing its property portfolio and putting government accommodation services on a business-oriented footing;
- Supporting the investment in infrastructure and information technology of the Department of Home Affairs, and improvement in its service delivery and management systems;
- Improved financial management and acquisition of foreign property by the

Department of Foreign Affairs;

- Assistance to the Department of Provincial and Local Government in its management of grants and in addressing financial aspects of disaster management; and
- Assistance to Statistics SA in budgeting and planning for enhanced household surveys and the next national census.

Co-funded by the European Union, the *Technical Assistance* unit supports the work of the *Public Finance* teams. Its work includes support for project management and improving capital project planning and implementation, particularly related to provincial infrastructure investment and implementation of key initiatives of the social development and justice cluster departments.

Intergovernmental Relations

The *Intergovernmental relations* division coordinates fiscal relations between the national, provincial and local government spheres – a key role in South Africa's evolving intergovernmental fiscal system.

Over 60 per cent of non-interest allocations on the main Budget takes the form of transfers to provincial and local governments, placing them at the forefront of social and basic service delivery. These allocations total R167,6 billion, R182,5 billion and R195,8 billion over the next three years.

Intergovernmental relations plays a key role in this respect, managing the intergovernmental fiscal framework; analysing and ensuring oversight of provincial and local government budgets and intergovernmental grants; and implementing financial management reforms at the provincial and local level.

The 2004 Budget reflects the continuing evolution of our intergovernmental system. The division is responsible for preparing the annual Division of Revenue Act, including the detailed grant frameworks and three-year allocations for each provincial and local government grant, by province or municipality. New frameworks for the allocation of grants to provinces and local government provide sharper definitions of the purpose and intended outputs for each grant. This enhances transparency and is expected to lead to further improvements in service delivery. The ongoing evolution of the system of intergovernmental fiscal relations will be achieved at the provincial and local levels by rationalising grants to ensure that there are fewer, but better administered, grants. With the turnaround in provincial infrastructure investment, the main focus over the medium term will be to use infrastructure delivery to accomplish other government objectives. More specifically, the priority will be to facilitate employment through labour-based and labour-intensive projects. In addition, future initiatives will focus on institutionalising good practices in relation to infrastructure planning, supply-chain management (procurement) and delivery.

With regard to the provincial sphere, the division works closely with provincial treasuries, resulting in stable provincial finances, with budget and monthly reporting systems now deeply rooted. Budget reforms continue, with the development of uniform sector budgets and strategic plan formats, allowing for more comparability between provinces. Coming improvements include the development of performance indicators for each sector, and the more uniform annual reports for each sector. Much of the division's time is taken up in developing good, constructive working relationships with the nine provincial treasuries and departments, through the Budget Council, Joint Minmecs and the many technical committees like the Technical Committee for Finance and the sectoral technical committees ("4x4s" and "10x10s"). The sectors covered include education, health, social development, housing, roads, transport and agriculture.

The biggest challenge facing government is to extend these reforms, now that the Municipal Finance Management Act (56 of 2003) has been enacted by Parliament. Implementation of the Act will be phased in from 1 July 2004. Targeted support will be provided to municipalities to improve their financial management capacity and to strengthen the link between policy, planning and budgets. These reforms have been piloted in selected municipalities and are being rolled out countrywide over the medium term. This will ensure even greater transparency in resource allocation and reporting, and will, over time, further enhance accountability and service delivery.

The division is responsible for monitoring all provincial and local government budgets, and compiles a database of all such budget information. It is also responsible for the annual *Intergovernmental Fiscal Review*, which provides a consolidated review of how the nine provinces and 284 municipalities fund the delivery of social and basic services to our communities. The wealth of information it provides is aimed at promoting better accountability by providing valuable information to the public, elected officials, public servants and policy researchers in order to improve the quality and delivery of public services.

The division is also responsible for administering Programme 6 – *Provincial and Local Government* transfers. It also monitors compliance by provinces with the provisions of the PFMA and the Division of Revenue Act that relate to fiscal transfers, specifically to conditional grants administered by the National Treasury. The division will also be responsible for ensuring that municipalities comply with the Municipal Finance Management Act, once it is implemented.

The division aims to ensure that sectoral policies affecting provincial and local spheres of government are affordable, and consistent with the fiscal framework for these two spheres.

Over the next three years, the *Intergovernmental* team will be undertaking a major review of the fiscal framework for provincial and local spheres, including a review of the equitable share formulae and other grants, and sub-national taxation and borrowing powers. Such framework will take into account the impact of the shift in the social grant function, as well as the restructuring of the electricity-distribution industry.

Economic Policy and International Financial Relations

The *Economic Policy and International Financial Relations* division undertakes policy analysis and engages in consultation and collaborative work in the areas of: macroeconomic policy, international economic policy and relations with multilateral institutions, tax policy and financial policy and regulation.

The *Macroeconomic Policy* unit engages in research and policy analysis that contribute towards enhancing sustainable growth, job creation, skills development, productivity, economic competitiveness, expectations management and empowerment. The primary responsibility of the unit is the production of macroeconomic forecasts, in particular on growth, the external account and inflation. These forecasts form the foundation for the Budget framework. As part of an ongoing process of improving our modelling capabilities and expanding relevance, the unit is broadening its suite of models. A Computable General Equilibrium (CGE) modelling capability has been effected, after three years of groundwork. This will enable the Treasury to analyse the welfare and distributional effects of Government's policy decisions. It is extremely important for the Treasury to undertake such activities, as it ensure increased certainty about both the economic and social benefits of decisions. In designing changes to fiscal Policy, Government frequently has only a rough idea of the final impacts of the policy change. Although not every change in policy can be reduced to quantitative impacts, there are numerous situations where the design of fiscal policy would benefit greatly from simulating the proposed policy changes in advance. This allows possible impacts and side effects to be assessed in the design and management of policy.

Implementation and strengthening the inflation-targeting regime, in collaboration with the South African Reserve Bank, continues to be another key focus for the unit. In 2003, key changes were introduced to the framework to enhance its overall contribution to a sound macroeconomic environment in South Africa. In the years ahead, work will continue to facilitate the implementation of the framework, providing for maximum transparency in the management of the framework.

Over the past year, events led to engagement in a number of activities aimed at analysing pricing behaviour in South Africa. The analysis was undertaken in support of possible policy interventions in these sectors that would support price stability and, in particular, inflation targeting. The focus of this work shifted from food price volatility of the previous year, and more to administered and regulated prices. This shift was important for two main reasons: namely that this is an area in which Government can have more direct influence; and that these prices tend to have ripple effects across the economy. At one level, they constitute the bulk in the production costs of business and on another level they are an important factor in determining consumer welfare, in that they constitute a sizeable portion of the average consumer basket. In this context, the Treasury has led several engagements in Nedlac on this matter, dealing with welfare responses to high and volatile prices.

Another reason for the shift in focus, is acknowledgement of the fact that inflation management is not the sole responsibility of monetary policy thus the need to focus on regulated and administered prices, and utility prices in particular. Regulated and administered prices emanate from sectors such as utilities (water and electricity), which provide basic services to communities. Over the next three years the team will analyse, monitor and advise on appropriate policy responses to developments in administered prices in line with the overall inflation-targeting objectives.

Job creation tops the Government's priority agenda for the current MTEF. The *Macroeconomic Policy* team plays a key role in formulating and coordinating appropriate growth-enhancing policies that contribute towards strengthening employment creation. Over the next three years, work will focus on modelling and analysis that assess the impact of interest rate and exchange rate variability as well as that of microeconomic reform on South Africa's growth prospects together with a comprehensive strategy for growth an development. In this regard, this unit is the Treasury representative and leader in the implementation of the Growth and Development Summit, which has a large component of agreements focused at dealing with unemployment.

Further work will be undertaken in the area of policy design to promote savings by both households and the corporate sectors. The latter complements and builds on the team's engagement in the Financial Sector Summit in 2002. This was subsequently followed with an international workshop, in December of 2003, to investigate policy and other practical interventions to promote higher savings in the economy. Further discussions on this matter will be handled under the Nedlac umbrella. The summit, between Government, business and labour, deliberated on strategies that will improve delivery of financial services, enhancing national savings and direct them to development purposes. The summit declared that all South Africans should have access to affordable and convenient payments and savings facilities and that the development of institutions that provide micro-credit to the poorest households should be supported. These intentions are tied to policy initiatives across Government to raise the domestic savings rate, providing a stable source of financing investment into the future.

In addition, the division is actively participating on a range of task-teams that are engaged in developing programmes to facilitate the implementation of the agreements set out in the Financial Sector Charter. The primary focus of these teams is to reinforce the developmental agenda in each of the task teams and to ensure the most efficient, growth-enhancing intermediation of the nation's scarce resources.

The team also represents the National Treasury in several domestic and international bodies and standing committees, including Nedlac, the Common Monetary Area Commission, the Statistical Council, the Policy Board and the Financial Markets Advisory Board to the Minister of Finance, the Southern African Development Community Macroeconomic Subcommittee and the inflation-targeting technical committee.

The *Tax Policy* unit is responsible for advising the Minister of Finance on tax policy issues that arise at all three levels of government. In its policy advice function to Government, the unit must design tax instruments that can optimally fulfil their revenue-raising function, achieve economic and allocative functions and strengthen redistributive and social policy functions at the same time. All of this must be done in a manner that creates a basis for general political acceptability of the selected tax instruments.

In formulating tax policy design, there is a need to match the generally accepted principles of a good tax system within the current macroeconomic and fiscal policy objectives of Government. The policy advice must achieve an acceptable trade-off between competing fiscal and economic policy objectives. In designing tax policy, cooperation between the South African Revenue Service and the National Treasury is of utmost importance, as is daily interaction with the corporate sector and the general tax-paying public.

Since 1994 consistent tax policy and administrative practices have been initiated that aim to broaden the tax base by improving tax administration and eliminating ineffective tax incentives. Tax legislation is being drafted by expert committees comprised of staff from the National Treasury and SARS with a clear focus on efficient and internationally competitive taxation strategies. Tax legislation is drafted with a simultaneous inclusion of effective anti-avoidance provisions with a view to narrowing the tax compliance gap.

The South African economy has benefited from a decade of tax base-broadening reforms and improvements in revenue collections, enabling Government to grant R72,8 billion in tax relief. Tax relief has contributed to rising household consumption expenditure, boosted economic development, targeted fixed investment growth and promoted small enterprise development.

In the 2004 Budget, against the background of slower revenue growth, there is limited scope for tax relief – nevertheless, several measures were announced with a view to moderating the tax burden and improve the overall fairness of the system.

Through improved revenue estimation modelling and on the back of still strong revenue collections, the *Tax Policy* unit has worked on designing ongoing personal income tax relief of R4 billion, increasing the minimum tax threshold further and adjusting the tax brackets to benefit mainly low- and middle-income taxpayers for the 2004/05 financial year. In addition, Government announced the introduction of incentives for broad-based empowerment through employee share transfer systems, the reduction in transaction costs in the housing market by eliminating stamp duties on mortgage loans and increasing the exemption threshold for transfer duties. Further relief measures include the elimination of ad valorem excises on recorded music, magnetic tapes, certain cosmetic products, print film, clocks, computer printers and photo copying apparatus.

Over the next three years, the team will focus on implementing the proposals set out in this year's Budget. Key among these is the view and preparation of a final discussion document on the tax treatment of retirement savings, which need to be synchronised with reforms of the prudential regulatory framework pertaining to the pension fund industry. The process will encourage open consultation with various stakeholders so that the final legislation represents a fully deliberated product. Other ongoing tax policy developments will focus on the gradual expansion of the number of deserving public benefit organisations eligible for tax deductible donations via the issuance of regulations, the roll-out of the urban development accelerated tax write-off provisions applicable for 16 urban areas, the deemed expense schedule for the motor vehicle allowance scheme, adjustment of equity-based incentives for highly paid employees, addressing the tax treatment of hybrid financial instruments and finding an appropriate tax treatment of government grants to public-private partnerships developing infrastructure on Government-owned property,

Key strategic outputs for the indirect tax division will be the finalisation of a policy document/white paper on environmental fiscal reform, which will integrate the discussions on environmental charges with a broad group of stakeholders held in November 2003. Other environmentally related reviews include the revenue potential of an electricity levy for local government finance, a review of the *ad valorem* customs and excise duties on motor vehicles and the fuel levy treatment of liquid petroleum gas as a cleaner burning substitute for petrol and diesel, and policy reforms and an analysis of tax implications for the introduction of Government's clean fuels policy directive.

Over the strategic planning period, the *Tax Policy* unit will begin with the evaluation of tax proposals in terms of the Provincial Tax Regulation Process Act (53 of 2001), which are submitted by provinces. The unit is required to review these tax proposals against a rigid set of constitutional requirements, Government's national tax policy imperatives and its fiscal decentralisation policies. The review process and policy advice to the Minister in this regard seeks to ensure the imposition of uniformly defined and allowed provincial taxes, thereby protecting the coherence of the country's tax system with the benefit of minimal compliance and administrative costs.

The *Tax Policy* unit is working on the second draft Mineral Royalty Bill that the Minister of Finance intends to introduce into the Parliamentary process in 2004. Presentations and hearings with private stakeholders in the minerals industry will accompany the process. Several refinements to the first draft were announced during the 2004 Budget, including a delay in the introduction of the royalty for five years after the introduction of the Mineral and Petroleum Resources Development Act (28 of 2002), the reconfirmation of Government's preference for a revenue-based royalty, and the removal of the fiscal stabilisation clause. Government is mindful of potential adverse impacts on investment, employment and output owing to the introduction of the royalty and over the reporting period the *Tax Policy* unit will hold extensive consultations with the mining industry on technical aspects of the Mineral Royalty Bill. The new regulatory system for mining rights, mineral beneficiation acceleration policies and the accompanying royalty dispensation for the mining and petroleum industry has made it imperative to holistically reassess the current fiscal dispensation. This will entail a comprehensive review of the current tax depreciation rules, rate differentiation for different sectors in the industry, allowable deductions, STC exemptions and tax preferences for marginal and deep gold mine operations. Other issues of concern include the special 40 per cent surcharge for companies engaged in natural oil extraction, as South Africa is keen to attract more investment into its offshore natural oil and gas industry.

Finally, the *Tax Policy* unit, as Chair of the Southern African Development Community (SADC) Tax Subcommittee, will continue to play a leading role in delivering on regional tax coordination. A key driver for this process is the implementation of the ratified "SADC Memorandum of Understanding on Taxation and Related Matters", to the extent necessary to improve the efficiency in tax collections, safeguard the regional tax base and reduce obstacles to intra-SADC trade and investment. This initiative will be reinforced by the incorporation of the memorandum of understanding in a binding SADC Finance and Investment Protocol that is due to be signed in June. The coordination programme aims to identify and develop areas for cooperation in tax administration and policy and to build stable and efficient tax systems that will facilitate trade and investment, while securing regional tax bases. This work is being carried out in parallel with the macroeconomic convergence programme being undertaken by the *International Economics* unit.

The *Financial Sector Policy* unit (formerly the Financial Regulation unit) is responsible for advising the Minister of Finance on policies aimed at promoting the growth, development and stability of the financial sector. This is achieved through interaction and dialogue between the Treasury, regulatory authorities, consumer groups and industry. Much of the work is focused on developing legislation and regulations that are necessary to implement the policy approach adopted.

The unit has five key strategic objectives to deliver, over the next three years, namely; the promotion of a more equitable and efficient financial sector, enhancing financial stability, increasing the protection of investors and consumers, ensuring that South Africa both meets and influences the development of international standards in the financial sector, and actively promoting the growth of the sector through exports.

The unit is responsible for liaison between the Treasury and the South African Reserve Bank on matters related to bank supervision, financial stability and the national payments system. It is also responsible for liaison between the Treasury and the Financial Services Board, which supervises the non-banking financial services sector under the policy direction of the Minister of Finance. The unit is, therefore, charged with ensuring that various financial-services legislation prepared by the South African Reserve Bank and the Financial Services Board is in accordance with the policy objectives of the Minister of Finance.

The unit also actively engages international organisations on anti-money laundering and the combating of terrorist financing. It also engages with regional organisations, such as the Common Monetary Area and the Committee of Insurance, Securities and Non-banking Financial Authorities, a subcommittee of SADC.

The *Financial Sector Policy* team represents the National Treasury on numerous committees. These include: the Policy Board for Financial Services and Regulation – a statutory advisory body that furnishes advice to the Minister on the financial services industry and the regulatory framework of the financial system; the Financial Markets Advisory Board – a statutory advisory board that furnishes advice to the Minister on issues that affect the financial markets; and the Standing Committee for the Revision of the Banks Act (94 of 1990).

The unit actively participates in bi-lateral and multi-lateral negotiations pertaining to the trade in financial services. Furthermore, in pursuit of the unit's strategic objectives, participation in and contributions towards the working of regional and international forums, such as SADC, G20, IOSCO, Basel and FATF, are an important component of work conducted.

The National Treasury is committed to ensuring that South Africa's financial sector provides services that meet the needs of all South Africans ranging from multi-national conglomerates all the way to the ordinary citizen.

The *International Economics* unit undertakes policy research and analysis, providing advice and support to key decision-makers, notably the Minister of Finance, on issues that contribute towards deepening and extending economic linkages between African economies, strengthening South Africa's capital account, reforming the international financial architecture and shaping the international-development policy agenda.

Ongoing analysis is taking place in the areas of financial market development and capital-account policies. The unit is responsible for advising on exchange control policy and capital account liberalisation, and is actively involved in the development and implementation of the exchange-control reforms announced in the 2003 Budget.

Over the next three years, the unit will focus on developing and implementing proposals for regional financial sector strengthening and integration, assessing policies to manage capital-account shocks, and managing the transition from exchange controls to prudential regulation of foreign investment by institutional investors.

International Economics continues to engage actively with multilateral institutions, including the International Monetary Fund, the World Bank, the G20, the G24 and the United Nations. Over the next three years, the team intends to strengthen its engagement, focusing on shaping the global development policy agenda to improve development policies for African economies and increase the level of aid flows. The intent is facilitated through Minister of Finance Trevor Manuel's role as chair of the World Bank's Development Committee.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS
Medium-term output targets

Programme 2: Economic Planning and Budget Management

Measurable objective: To promote growth, social development and poverty reduction through sound economic, fiscal and financial policies, efficient re venue raising measures and an effective and appropriate allocation of public expenditure

Subprogramme	Output	Measure/Indicator	2004/05 Target Milestone	2005/06 Target Milestone	2006/07 Target Milestone
Budget Office	Annual Budget framework and Division of Revenue	Integrity of budget framework	MTBPS – October 2004: framework for 2005 Budget		
	Budget Review, Estimates of National Expenditure, appropriation legislation and public finance statistics	Quality of budget documentation	Timely publication, accuracy, scope and quality of content		
	Public-private partnership agreements	Value for money and risk transfer in partnerships	Introduction of project development facility	Restructuring of PPP advisory and regulatory functions	
	International cooperation agreements	Contribution to RDP objectives	Introduction of ODA information system	Improved coordination between ODA planning and budget process	
Public Finance	Sectoral and departmental policy advice	Timely and relevant analysis and advice	Assessment of policy priorities for medium term and 2005	Phasing in of targeted sectoral expenditure reviews	
	Expenditure analysis	Quality of expenditure estimates	Introduction of new in-year expenditure monitoring system	Phasing in of consolidated departmental and agency estimates and expenditure reports	
	Project management support	Improved project and financial management	Growth in project flow and measured progress in service delivery of client departments and agencies		

Subprogramme	Output	Measure/Indicator	2004/05 Target Milestone	2005/06 Target Milestone	2006/07 Target Milestone
Intergovernmen-tal Relations	Annual Division of Revenue Bill	Produce on Budget Day, with allocations by province or municipality	Bill published on Budget day		
	Explanatory memorandum to the annual Division of Revenue Bill	Produced on Budget Day, to accompany Division of Revenue Bill, explaining fiscal framework and all grants to provincial and local government	Published on Budget day		
	Intergovernmental Fiscal Review	Quality of data on provincial and municipal budgets, and an analysis of trends on such budgets, and for key sectors like education, health, social development, water and electricity	2004 Review published by June 2004	2005 Review published by May 2005	2006 Review published by May 2006
	Intergovernmental financial and fiscal trends	In-year budget implementation information through quarterly publication of provincial and local government budgets Annual production of information via Intergovernmental Fiscal Review (dealt with above)	Quarterly publication of provincial budgets Quarterly publication of 10 municipal budgets	Quarterly publication of provincial budgets Quarterly publication of 20 municipal budgets	Quarterly publication of provincial budgets Quarterly publication of 50 municipal budgets
	Support for provincial and municipal financial development	No. of provinces and municipalities in which financial management programmes/ reforms have been implemented	9 provinces and 37 pilot municipalities	9 provinces and 62 municipalities	9 provinces and 100 municipalities
Economic Policy and International Financial Relations	Macroeconomic forecasts and framework	Accuracy and timeliness of quarterly forecasts Quality of policy evaluation	Enhanced quarterly econometric forecasting model Develop CGE model	Develop internal modelling capacity	
	Macroeconomic policy analysis and advice	Timely and relevant analysis and advice	Integrated growth strategy	Comprehensive management of macroeconomic risks Improved efficiency in microeconomic regulation	

Subprogramme	Output	Measure/Indicator	2004/05 Target Milestone	2005/06 Target Milestone	2006/07 Target Milestone
	Tax policy analysis and advice	Timely and relevant analysis and advice	Retirement Fund Tax Review	Phasing in of retirement fun d tax reforms	
		Alignment of tax policy proposals with macroeconomic and fiscal framework	Mining and Petroleum Royalty Bill – 2nd draft	Introduction of royalty legislation into Parliamentary process	
		Gradual and consistent tax policy changes	Policy framework paper on environmental charges	Possible phasing in of environmental charges	
			Taxation and Growth Colloquium	Possible adjustments of tax proposals to reflect Colloquium	
	Financial Sector policy advice, legislation and regulations	Timely and relevant analysis and advice	Framework for integration of financial regulation	Implement mechanisms for integrating financial regulation	
			Develop South African Deposit Insurance Scheme (SADIS) for retail banking depositors	Enact Deposit Insurance Bill	
			Framework for pension fund reform and review of Pension Funds Act	Enact revised Pensions Fund Act	
			Framework for encouraging second and third tier banks		
			Formulate policy regarding combating of money laundering and financing of terrorism	Address outstanding areas of FATF compliance	
			Co-operative Banks Bill		
			Financial Services Ombud Schemes Bill		
			Security Services Bill		
			Auditing Profession Bill	Implementation of new auditing profession regulatory authority	
			Corporate Governance and Financial Reporting Bill		

Subprogramme	Output	Measure/Indicator	2004/05 Target Milestone	2005/06 Target Milestone	2006/07 Target Milestone
	International financial relations advice and development	Timely and relevant analysis and advice. South Africa's views successfully reflected in the policies of international development finance institutions.	Proposals developed on HIPC reform, sovereign debt restructuring mechanism, best practice capital account and exchange control policy reform. Establish Nepad capital flows and debt relief initiatives, African Peer Review Mechanism and rules and procedures for macroeconomic convergence in SADC.	Proposals on international financial architecture reform presented to G20, IMF, World Bank and other international financial institutions. Ensure African Peer Review Mechanism economic governance assessment completed.	Proposals on international financial architecture reform reflected in the positions of the G20, IMF, World Bank and other international financial institutions. Progress achieved in SADC macroeconomic convergence.

RESOURCE PLAN

Expenditure estimates

Table 3: Economic Planning and Budget Management

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2003/04	2004/05	2005/06	2006/07
Public Finance	31 420	32 463	35 574	38 746
Budget Office	34 680	39 685	43 195	47 062
Intergovernmental Relations	21 920	25 825	27 691	29 310
Economic Policy	40 243	42 234	44 492	46 654
Total	**128 263**	**140 207**	**150 952**	**161 772**
Change to 2003 Budget Estimate	5 670	5 609	13 609	
Economic classification				
Current payments	**118 303**	**131 007**	**140 950**	**151 558**
Compensation of employees	74 914	87 113	96 199	103 636
Goods and services	43 389	43 894	44 751	47 922
Interest and rent on land	–	–	–	–
Financial transactions in assets and liabilities	–	–	–	–
Unauthorised expenditure	–	–	–	–
Transfers and subsidies to:	**6 712**	**6 168**	**6 181**	**6 205**
Provinces and municipalities	338	168	181	205
Departmental agencies and accounts	6 000	6 000	6 000	6 000
Universities and technikons	–	–	–	–
Foreign governments & international organisations	–	–	–	–
Public corporations & private enterprises	374	–	–	–
Non-profit institutions	–	–	–	–
Households	–	–	–	–
Payments for capital assets	**3 248**	**3 032**	**3 821**	**4 009**
Buildings and other fixed structures	–	–	–	–
Machinery and equipment	3 248	3 032	3 821	4 009
Cultivated assets	–	–	–	–
Software and other intangible assets	–	–	–	–
Land and subsoil assets	–	–	–	–
Of Which: capitalised compensation	–	–	–	–
Total	**128 263**	**140 207**	**150 952**	**161 772**
Details of transfer payments and subsidies:				
Provinces and Municipalities				
Municipalities				
Current	**338**	**168**	**181**	**205**
Regional Services Council levies	338	168	181	205
Departmental agencies and accounts (Entities)				
Current	**6 000**	**6 000**	**6 000**	**6 000**
Project Development Facility Trading Account	6 000	6 000	6 000	6 000
Private Enterprises (Other Transfers)	**374**			
Current				
Human Science Research Council (HSRC) project	174	–	–	–
Finmark Trust	200	–	–	–
Total	**6 712**	**6 168**	**6 181**	**6 205**

Expenditure trends

Expenditure on the *Economic Planning* and *Budget Management* programme has increased steadily in recent years, in keeping with the Treasury's focus on building its analytical and administrative capacity and deepening the quality of economic and fiscal planning.

Although the medium-term estimates indicate a broadly stable pattern of spending in real terms, actual expenditure has lagged somewhat behind allocations in the past two years and the allocations for 2004/05 and beyond provide for a continued expansion of capacity in the National Treasury's economic and fiscal policy work. Priority areas for further professional development include international financial relations, particularly in support of Nepad initiatives, tax policy, financial regulation and oversight, support for municipal budgeting and financial restructuring, public-private partnerships, fiscal and public expenditure analysis and technical support for infrastructure planning and project management. The allocations also include provision for the Department's internship programme, and an annual allocation of R6 million to the new Project Development Facility Trading Account of the *Public-Private Partnership* unit.

PROGRAMME 3

ASSETS AND LIABILITY MANAGEMENT

Purpose: *Asset and Liability Management* is responsible for the prudent management of Government's financial assets and liabilities.

Measurable objective: The programme aims to manage the Government's asset and liability portfolio in a manner that ensures prudent cash management, asset restructuring, financial management and optimal management of the Government's domestic and foreign debt portfolio.

Programme activities are carried out through five sub-programmes:

- *Management* manages the Office of the Head of the Division.
- *Asset Management* is committed to enhancing shareholder value through restructured state-owned entities, monitor and enforce compliance with corporate governance for government bodies and Public entities in accordance with the Public Finance Management Act (1 of 1999) and co-ordinate borrowing activities of Public entities in line with Treasury Regulations.
- *Liability Management* provides for the Government's liquidity needs and ensures prudent management of both domestic and foreign debt by issuing at the lowest possible cost subject to acceptable levels of risk, and contributes to the development of domestic capital markets and timeous servicing of debt.
- *Financial Operations* is responsible for the management of the Government's liquidity requirements, ensures that all Government's debt transactions are accounted for timeously and are reported in terms of the PFMA and all other multi-lateral institutions reporting requirements. It also provides for the divisional information system requirements.
- *Strategy and Risk Management* develops and maintains a Government-wide risk management framework and ensures that the strategies adopted by the Asset and Liability Management division (ALM) are in line with the agreed framework.

Policy developments

The debt management strategy aims at reducing borrowing costs and risks through increasing liquidity, managing maturity profiles, diversifying funding instruments, increasing transparency and information flows and building credibility among market players.

In the domestic market, Government will continue improving liquidity through the issuance of benchmark bonds over the entire yield curve and diversifying the available debt instruments. In 2004/05, two new single maturity fixed income bonds will be issued, maturing in 2017 and 2018. Retail bonds will be issued during the first quarter of 2004/05. The objective is to encourage the general public to save, while providing Government with an additional source of financing.

Government will issue nil coupon bonds to the total amount of R14,0 billion over the period 2004/05 to 2005/06, in an attempt to eliminate the realised losses in the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) held with the South African

Reserve Bank. In 2004/05, GFECRA will be reduced by R7,0 billion. This means that by the end of 2004/05, Government would have reduced GFECRA by R21,0 billion.

In the foreign markets, Government was able to shift its focus from creating benchmarks in major foreign markets to benefiting from opportunistic funding. Foreign borrowing was utilised to pay off the Reserve Bank's net open forward currency position (NOFP) that peaked at US$26,5 billion in February 1995, to the current positive value of US$6,4 billion. This contributed to a more stable exchange rate against the currencies of the South Africa's major trading partners. Over the next three years, foreign borrowing will concentrate on refinancing maturing foreign loans and the financing of the arms procurement disbursements.

Continuous improvements in cash management processes have reduced Government's daily non-interest bearing liquidity buffer with the South African Reserve Bank further, from R250 million to R100 million. A new cash strategy will be developed with a view to implement a comprehensive integrated Cash Management Framework for Government, giving departments greater cash management responsibilities. Treasury bills continue to be viewed as a cash management tool and the net increase will be R6,0 billion in the 2004/05.

To reduce borrowing costs and enhance credit risk management across Government, optimal use of available cash resources of Government will continue to be co-ordinated centrally between the provinces and the National Treasury. This will be done by completing the implementation of the intergovernmental cash coordination project in terms of which provinces will have a Corporation for Public Deposits bank account as part of their provincial revenue fund accounts.

On the information management front, a sovereign treasury information management strategy was compiled outlining the gearing of the ALM division towards a Front, Middle and Back Office configuration from a process and technology deployment point of view. The strategy document contains the software systems (i.e. applications) portfolio required to support ALM division's operations and its acquisition timetable. The software systems to modernise ALM division's operations will be acquired over the next three years. Owing to the new information management strategy, the ALM division will no longer use the Commonwealth's Debt Recording and Management System (CS-DRMS).

In actively managing the debt portfolio, the National Treasury has the responsibility for identifying, controlling and managing the risks to which Government is exposed. A comprehensive risk management framework, which provides for a set of benchmarks or reference criteria against which structure the debt portfolio can be tested, was developed. However, Government-wide risk was not afforded a high priority. To address this shortcoming, the risk management framework will be broadened further to encompass Government budget risks and broader contingent liability risks issues within the Public Sector.

National Treasury will continue its support for the restructuring of state-owned entities, which will generate funds for the National Revenue Fund. In addition, the National Treasury will finalise the review of Public Entities listed under Schedule 3A and 3B of the PFMA in 2004/05. The review covers mandates and strategic objectives, corporate governance, financial performance, treasury operations, human resources and remuneration policies.

Substantial progress has been made in normalising the dividend and tax status of the major commercial public entities and in 2003/04, R1,2 billion was received as dividends. However, to ensure consistency in the application of dividend policies, the National Treasury will develop a guideline on dividend policy.

The financial management of the state-owned entities (SOE's) has been enhanced through a review of their treasury operations. The need for the establishment of a Treasury Monitoring Unit has been identified to assist SOE's to enhance effective borrowing, limit borrowing risks and ensure the application of prudent operational policies. In addition, a database for SOE's has been developed providing key financial indicators. This will contribute to improved financial management, enhance transparency and raise accessibility to Government.

In line with Government's objective to enhance service delivery, the National Treasury will undertake a review of the mandates of the development finance institutions (DFI's). The objective of this is to address co-ordination, effectiveness and eliminate unnecessary competition.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 3: Assets and Liability Management

Measurable objective: Financing the budget deficit, managing the government's domestic and foreign debt portfolio, facilitating the restructuring of state-owned entities, ensuring that Government meets its cash commitments within acceptable levels of risk.

Subprogramme	Output	Measure/Indicator	2004/05 Target Milestone	2005/06 Target Milestone	2006/07 Target Milestone
Liability Management	Financing the deficit	Meet government borrowing requirement	Net positive issuance of R27,4 billion	Net positive issuance of R23,7 billion	Net positive issuance of R32,6 billion
	Maintain presence in foreign markets	Annual issuance in foreign markets	Issue equivalent of US$1,0 billion	Issue equivalent of US$1 billion	
	Eliminate GFECRA losses	Annual reduction of GFECRA losses	Issue R7 billion nil coupon bonds	Issue R7 billion nil coupon bonds	
	Diversification of borrowing instruments	Introduction of new funding instruments	Full yield curve of CPI bonds and operational retail bond market	Ongoing	
Financial Operations	Intergovernmental cash coordination	Phase 1 – All provinces having accounts with CPD	Phase 1 complete by December 2004		
		Phase 2 – Full implementation	Phase 2 complete by December 2005	Ongoing review and improvements	
	Reviewed Cash Management Strategy	Cash Management Framework	Cash Management Strategy processes reviewed and recommendations	Comprehensive Cash Management Framework	Implementation plan to commence
	Account and report on debt transactions	Measured by annual audits and achieve deadlines	Ongoing and annually	Ongoing and annually	

Subprogramme	Output	Measure/Indicator	2004/05 Target Milestone	2005/06 Target Milestone	2006/07 Target Milestone
Financial Operations	Systems integration and information management	Analysis, design and deployment of an integrated public debt management system	SITA business case development, tendering and deployment	Change management and on-going systems maintenance	
		Phase II development and deployment of the state-owned entities (SOEs) and the state's contingent liability register	Development and deployment of the web-based register	Change management and on-going systems maintenance	Planning a divisional data warehouse project with SITA
		Review of integrated sovereign debt management office	Best practices research	Front and middle office applications'	
			Benchmarking ALM division's operations with other OECD countries' sovereign debt management offices	SITA business case development, tendering and deployment	
			Structural modifications recommendations		
Strategy and Risk Management	Development of a Government-wide Risk Management Framework	Approved Risk Management Framework	Obtain approval and implementation	Implementation and ongoing review	Ongoing review and update
	Development of a Credit Risk Management Policy	Approved policy	Obtain approval and implementation	Implementation	Review and update
	Review of the Market Risk Management Policy	Revised document for Market Risk Policy	Obtain approval and implementation	Implementation	Review and update
	Development of a Risk Management Policy on Contingent Liabilities	Firm policy on Contingent Liabilities	Obtain approval and implementation	Implementation	
	Produce a quarterly debt profile review to monitor risks that arise out of the debt portfolio	Quarterly debt review report	Ongoing		
	Acquire a Risk Management System	Real-time system in place	Finalise specifications and tender processes	Acquisitions of the system and implementation thereof	Implementation and ongoing review

Subprogramme	Output	Measure/Indicator	2004/05 Target Milestone	2005/06 Target Milestone	2006/07 Target Milestone
Asset Management	Review of Development Finance Institutions	Review operations and mandates	Recommend legislative amendments	Ensure compliance	
	Review of Treasury operations	Review operations of all SOE's treasuries	Recommend SOE treasury guidelines	Recommend SOE treasury guidelines	Ensure compliance
	Formulate SOE dividend policy	All encompassing SOE dividend Policy	Formulation of dividend policy	Adherence	
	Prudent management of contingent liabilities	Perform due diligence on contingent liabilities	Accurate and reliable data on contingent liabilities	Maintenance	
	Identify, classify and listing of public entities	Quarterly publications and annual report to Scopa	Publication in the Government Gazette and Treasury website of all listed entities	Ongoing publication on Government Gazette and Treasury website	Ongoing review and publish updates
	Compliance with PFMA/Protocol on Corporate Governance	S52, S54, S55, S66 of PFMA – Submission of annual reports; Submission of Corporate Plan by Schedule 2 and 3B entities	To ensure that SOE's comply with PFMA and Protocol on Corporate Governance	Enforcement of full compliance by all SOE's	
		S70 –Issue of Guarantee by Cabinet Minister with concurrence of the Minister of Finance	Serve as secretariat to the Guarantee Certification Committee every quarter		
		Disclosure of remuneration of directors and executive management	Ensure compliance with Protocol on corporate Governance		
	Post Office	Corporatisation of the Postbank as subsidiary of Post Office	Regulatory Framework for Postbank	Research of expansion of the mandate of Postbank	Proposal on the framework for mandate expansion
	Transport	Broader Transnet Restructuring Policy	Endorsement of the Transnet end state model	Implementation of the model Legislative amendments	Finalisation of Transnet Restructuring
	Forestry	Restructuring of Safcol	Allocation of shares to BEE, NEF,		

RESOURCE PLAN
Expenditure estimates

Table 4: Asset and Liability Management

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2003/04	2004/05	2005/06	2006/07
Management	16 551	14 158	17 061	19 091
Asset Management	4 131	4 633	4 833	5 012
Liability Managenet	9 564	9 543	9 975	10 329
Financial Operations	8 561	8 965	8 236	8 568
Strategy and Risk Management	4 024	4 972	5 199	5 403
Total	**42 831**	**42 271**	**45 304**	**48 403**
Change to 2003 Budget Estimate	–	108	(255)	
Economic classification				
Current payments	**41 256**	**40 436**	**44 457**	**47 506**
Compensation of employees	18 466	22 907	23 568	24 335
Goods and services	22 790	17 529	20 889	23 171
Interest and rent on land	–	–	–	–
Financial transactions in assets and liabilities	–	–	–	–
Unauthorised expenditure	–	–	–	–
Transfers and subsidies to:	**34**	**36**	**38**	**40**
Provinces and municipalities	34	36	38	40
Departmental agencies and accounts	–	–	–	–
Universities and technikons	–	–	–	–
Foreign governments & international organisations	–	–	–	–
Public corporations & private enterprises	–	–	–	–
Non-profit institutions	–	–	–	–
Households	–	–	–	–
Payments for capital assets	**1 541**	**1 799**	**809**	**857**
Buildings and other fixed structures	–	–	–	–
Machinery and equipment	1 541	1 799	809	857
Cultivated assets	–	–	–	–
Software and other intangible assets	–	–	–	–
Land and subsoil assets	–	–	–	–
Of Which: capitalised compensation	–	–	–	–
Total	**42 831**	**42 271**	**45 304**	**48 403**

Provinces and Municipalities				
Municipalities				
Current	**34**	**36**	**38**	**40**
Regional Services Council levies	34	36	38	40
Total	**34**	**36**	**38**	**40**

Expenditure trends

The budget for Asset and Liability Management increased by 113,5 per cent in 2003/04 making provision for the increase in the compensation of employees due to the restructuring of the division. Although the budget increases at a lower average annual rate of 4,2 per cent over the medium term, the increase will facilitate the expansion in the sub-programmes' functions and posts, the implementation of new risk management approaches, the focus on corporate governance, and the development and implementation of an integrated information system.

PROGRAMME 4

FINANCIAL MANAGEMENT AND SYSTEMS

Purpose: *Financial Management and Systems* manages and regulates Government's supply-chain processes, implements and maintains standardised financial systems, and coordinates the implementation of the Public Finance Management Act (1 of 1999) (PFMA) and related capacity-building initiatives.

Measurable objective: The programme aims to regulate and oversee public-sector supply-chain management and standardise the financial systems of national and provincial government, while coordinating and implementing the PFMA.

Managed by the *Specialist Function* division, programme activities are carried out under the following subprogrammes:

- *Management* refers to the office of the head of the division
- *Supply Chain Management* develops policy that regulates the acquisition of goods and services in the public sector; monitors policy outcomes; facilitates and manages transversal term contracts on behalf of Government.
- *PFMA Implementation and Coordination* provides for the National Treasury's role in the implementation of the PFMA and related training initiatives.
- *Financial Systems* provides for the maintenance and enhancement of existing financial management systems, seeking to replace outdated systems with systems that are compliant with both the PFMA and generally recognised accounting practice.

Policy developments

Norms and Standards

The Government initiated reforms to its procurement policies, systems and processes in 1995. Reforms focus on the promotion of good governance and the introduction of a preference system to address certain socio-economic objectives. These are embedded in section 76(4)(c) of the PFMA and Section 112 of the Municipal Finance Management Act,. (56 of 2003) (MFMA), and the Preferential Procurement Policy Framework Act (5 of 2000) (PPPFA).

The Preferential Procurement Regulations were promulgated in August 2001. Pursuant to the promulgation of these regulations, it became clear that different interpretations of Government's preferential procurement objectives were emerging across the three spheres of Government. To assist in the adoption of a more uniform implementation approach, the National Treasury, in conjunction with the World Bank, conducted an extensive Joint Country Procurement Assessment Review. This assessment covered the status of procurement across national, provincial and local government.

The recommendations of the said assessment formed the basis of Government's introduction of the concept of Supply Chain Management within the public sector. On 10 September 2003 Cabinet approved a *Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government*, which was developed in conjunction with provincial treasuries. The policy strategy supported the issuing of a regulatory framework aimed at promoting sound financial management and uniformity in implementation of procurement reform initiatives in all three spheres of government.

Supply Chain Management forms an integrated part of financial management and can be described as a systematic process that ensures that goods and services are delivered to the right place and at the right quantity, quality, cost and time. The supply chain management function introduces principles of strategic sourcing, whereby better value for money is achieved through techniques such as life cycle cost analyses, just in time delivery principles and the management of the supply base and stakeholders.

Integrated supply-chain management aims to add value at each stage of the process – from demand of goods or services to their acquisition, managing the logistics process and finally, after use, to their disposal. In doing so, it addresses deficiencies in current practice related to procurement, contract management, inventory and asset control and obsolescence planning.

Uniformity in bid and contract documentation and options as well as bid and procedure standards, among others, will promote standardisation of supply-chain management practices.

Implementation of the strategy promotes uniformity in the different spheres of government in repealing tender-board legislation and giving effect to the PFMA intent to devolve responsibility and accountability for procurement-related matters to accounting officers. It enhances common interpretation and understanding of preferential procurement and related legislation and policies and introduces an integrated supply-chain management function and system for the appointment of consultants.

On 5 December 2003 an amendment to the State Tender Board regulations was also promulgated in the Government Gazette to allow the accounting officers to either procure their goods and services through the system prescribed by the State Tender Board, or alternatively in terms of the PFMA. This forms part of Governments' drive to devolve powers to the accounting officers who will ultimately accept full responsibility and accountability for all expenditures incurred by his/her department. It is envisaged that the State Tender Board Act will be repealed during the course of this year, at which stage the option for accounting officers to procure goods and services through the State Tender Board system will fall away.

On 5 December 2003 the National Treasury also promulgated a Framework for Supply Chain Management in terms of section 76(4)(c) of the PFMA, applicable to all national and provincial departments and trading entities, constitutional institutions and public entities listed in schedule 3A and 3C of the PFMA. Pursuant to this promulgation, practice notes were issued by the National Treasury to ensure uniform application of the new system and the use of standardised bidding documents. A guide to accounting officers / authorities was also issued to assist with the establishment of Supply Chain Management units and processes within their own institutions.

The National Treasury has established a Supply Chain Management Office to assist with management of transversal term contracts on behalf of National Government. The office will also ensure the alignment of Government supply-chain management practice with the requirements of the PFMA.

The new process requires from departments to establish supply-chain management units under the responsibility and management of departmental chief financial officers, ensuring that clear lines of authority and accountability, as well as performance criteria contribute towards minimising risk, improving sourcing procedures and processes, and enhancing asset and inventory management.

Departmental accounting officers are responsible for ensuring that their supply-chain management personnel are adequately trained. The National Treasury is facilitating this process by engaging several stakeholders, including the South African Management Development Institute and the Institute for Public Finance and Auditing, to develop appropriate supply-chain management training material over the next year.

This year the National Treasury intends to issue further practice notes in terms of the framework to guide uniformity in practices and procedures across national, provincial and local government. Provincial treasuries and municipal managers are already empowered to issue further practice notes in a cascading fashion, guiding the more detailed, technical implementation of supply-chain management practice. The National Treasury will assist accounting officers / authorities with the implementation of the integrated supply chain management process and will monitor the outcomes to determine whether Government's socio-economic policy objectives are achieved.

The Broad Based Black Economic Empowerment Act and its Strategy Document highlighted the deficiencies of the Preferential Procurement Policy Framework Act and its associated regulations to effectively achieve Government's BEE objectives. It became clear that the Preferential Procurement Regulations needed to be aligned with the Broad Based Black Economic Empowerment Act and the related strategy. The National Treasury, in consultation with the Department of Trade and Industry, is in the process of reviewing the regulations. The new system should become effective during the course of the new financial year and will assist towards achieving specific policy priorities and charters to enhance BEE.

PFMA Implementation Unit

Through the activities of the PFMA unit, the National Treasury monitors and reports on the implementation of the PMFA across national and provincial departments in respect of the detailed implementation plan that the Cabinet approved in September 2000. The first phase of PFMA implementation focused on critical improvements in departmental financial management and ensuring compliance with the new legislation and its regulations. The second phase is aimed at longer-term qualitative improvements, including the full implementation of generally recognised accounting practices.

The Validation Board, established in November 2001 to accredit training material used in the building of capacity for the implementation of the PFMA, has already accredited 57 courses of 12 training service providers, ensuring that training initiatives produce the requisite skills. The National Treasury has entered into a service level agreement with the Institute for Public Finance and Auditing for the roll-out of a large-scale financial-management training programme over the next three years. The course programme will include modules on government accounting; strategic planning and budgeting; supply-chain management, internal control and fixed-asset management for financial and non-financial managers. The arrangement will lead to a joint venture between the Institute for Public Finance and Auditing and the South African Management Development Institute, which is responsible for coordinating public-sector training.

The National Treasury submitted progress reports on the implementation of the PFMA to the Cabinet and SCOPA in June 2002 and May 2003. A further report, which was due by March 2004, is in the process of finalisation for imminent submission to Cabinet and to SCOPA. Delays in the finalisation of this report are attributed to the late receipt of responses of information from provincial departments.

Financial Systems

The existing ("legacy") financial systems in Government, managed by the *Financial Systems* unit, are based on outdated technology and architecture. Significant revisions of governance practices in recent years have had a fundamental impact on public-sector management and associated information technology solutions. In particular, the PFMA requires the introduction of generally recognised accounting practice, which, in turn, calls for the introduction of new integrated financial-management solutions to meet the requirements of the public service.

These requirements necessitated comprehensive analysis of the existing financial systems – the Financial Management System (FMS), the Basic Accounting System (BAS), the Logistics Management System (Logis) and the Human Resource Management System (Persal), to determine their suitability. New integrated financial management solutions will need to be phased in over time but, in the interim, existing systems will be maintained and enhanced in certain priority areas.

The priorities over the medium term are:

- Full migration from the FMS to the BAS; implementing a Standard Chart of Accounts as prescribed and approved by the Accountant General;
- Providing for compliance with PFMA requirements for financial statements, debtors, creditors, and asset management functions; and
- Increased user support and training.

An Integrated Financial Management Project Office was established on 1 February 2003 to develop a master plan for the integration of Government's financial management systems. The South African Information Technology Agency will perform the task of primary systems integrator in this process. The master plan which will be submitted early in the 2004/05 financial year, will include options for the replacement and/or enhancement of Government's current financial systems, together with proposed budgets and implementation time frames relevant to the possible options.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 4: Financial Management and Systems

Measurable objective: To regulate and oversee public-sector supply-chain management through policy formulation and improve the quality of financial r eporting by ensuring that appropriate policiesand procedures and developed and implemented.

Subprogramme	Output	Measure/Indicator	2004/05 Target Milestone	2005/06 Target Milestone	2006/07 Target Milestone
Supply-Chain Management	Regulating and monitoring supply chain management policy outcomes in Government, and managing transversal term contracts on behalf of Government	Adoption and implementation of consistent legislative and policy framework			
	Dismantling of State Tender Board	Repeal of the State Tender Board Act	To be finalised during 2004		
	Monitoring of PPPFA policy outcomes and maintenance of a supply chain data base	Number of contracts awarded to HDIs	20% of contracts to HDIs	40% of contracts to HDIs	60% of contracts to HDIs
		Value of contracts awarded to HDIs	Reports submitted to Cabinet in September	Reports submitted to Cabinet in March and September	Reports submitted to Cabinet in March and September
	Introduce strategic sourcing principles to enhance value for money	Applicable to at least 70 transversal term contracts	Introduce strategic sourcing strategies for 30% of all term contracts	Introduce strategic sourcing strategies for 70% of all term contracts	Introduce strategic sourcing strategies for 100% of all term contracts
	Alignment of Preferential procurement system with broad-based economic empowerment	Revision of Preferential Procurement Regulations	Promulgation of new Preferential Procurement Regulations by July 2004		

Subprogramme	Output	Measure/Indicator	2004/05 Target/ Milestone	2005/06 Target/ Milstone	2006/07 Target/ Milestone
PFMA Implementation and Coordination	Coordination of the implementation and training initiatives of the National Treasury as well as monitoring implementation of the PFMA in other institutions	Report to Cabinet and Standing Committee on Public Accounts on progress made	31 March 2004 30 September 2004	31 March 2005 30 September 2005	31 March 2006 30 September 2006
		Percentage of training material evaluated and accredited relevant to government needs	100%	100%	100 %
		Number of courses presented that meet the training needs of Government	20 courses	20 courses	20 courses
Financial Systems	Maintenance and enhancement of existing Financial Management Systems (Persal, Logis, BAS, FMS & Vulindela)	Percentage availability of Financial Management Systems during working hours	98% system availability Monday to Friday from 7:30 to 16:30	98% system availability Monday to Friday from 7:30 to 16:30	98% system availability Monday to Friday from 7:30 to 16:30
	Implementation of Master Plan for integrated financial management systems (IFMS)	Adoption of Master Plan by Budget Council and Cabinet	Approval of Master Plan by Budget Council and Cabinet during April – June 2004	Phased implementation of recommendations contained in IFMS Master plan	Phased implementation of recommendations contained in IFMS Master plan

RESOURCE PLAN
Expenditure estimates

Table 5: Financial Management and Systems

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2003/04	2004/05	2005/06	2006/07
Management	1 123	1 165	1 237	1 342
Supply Chain Management	26 616	29 364	31 448	33 336
PFMA Implementation and Co-ordination	15 626	15 781	16 629	17 626
Financial Systems	327 585	306 145	316 309	329 188
Total	**370 950**	**352 455**	**365 623**	**381 492**
Change to 2003 Budget Estimate	13 234	(35 018)	(49 568)	
Economic classification				
Current payments	**366 704**	**348 903**	**362 079**	**377 691**
Compensation of employees	35 025	44 851	51 357	54 542
Goods and services	331 679	304 052	310 722	323 149
Interest and rent on land	–	–	–	–
Financial transactions in assets and liabilities	–	–	–	–
Unauthorised expenditure	–	–	–	–
Transfers and subsidies to:	**54**	**62**	**65**	**67**
Provinces and municipalities	54	62	65	67
Departmental agencies and accounts	–	–	–	–
Universities and technikons	–	–	–	–
Foreign governments & international organisations	–	–	–	–
Public corporations & private enterprises	–	–	–	–
Non-profit institutions	–	–	–	–
Households	–	–	–	–
Payments for capital assets	**4 192**	**3 490**	**3 479**	**3 734**
Buildings and other fixed structures	–	–	–	–
Machinery and equipment	4 192	3 490	3 479	3 734
Cultivated assets	–	–	–	–
Software and other intangible assets	–	–	–	–
Land and subsoil assets	–	–	–	–
Of Which: capitalised compensation	–	–	–	–
Total	**370 950**	**352 455**	**365 623**	**381 492**

Provinces and Municipalities				
Municipalities				
Current	**54**	**62**	**65**	**67**
Regional Services Council Level	54	62	65	67
Total	**54**	**62**	**65**	**67**

Expenditure trends

The budget for this programme will grow at about the same rate as the budget of the Department as a whole over the medium term – about 10 per cent a year. Increases in the budget over the medium term for *PFMA Implementation and Coordination and Supply-Chain Management* reflect the intention to roll-out training and capacity-building initiatives related to implementing the PFMA. Provision is also made for establishing the Supply Chain Management Office to manage transversal or general supply contracts on behalf of national government and align government supply-chain management with the requirements of the PFMA. Increasing expenditure on *Financial Systems* – which consumes over 88 per cent of the programme budget – reflects the expected roll-out of the Basic Accounting System.

Professional and special services consume more than 85 per cent of the budget, as much of the management of Government's financial systems is handled by the State Information Technology Agency and other contracted resources.

PROGRAMME 5

FINANCIAL ACCOUNTING AND REPORTING

Purpose: *Financial Accounting and Reporting programme* intends to set new and enhance existing government accounting policies and practices to ensure compliance with Generally Recognised Accounting Practices (GRAP), prepare consolidated financial statements and endeavours to improve the timeliness, accuracy and efficiency of financial reporting.

Measurable objective: The programme aims to achieve accountability to the general public by promoting transparency and effective management in respect of revenue, expenditure, assets and liabilities in the public sector.

Managed by the Office of the Accountant-General, the programme consists of four sub-programmes encompassing a wide range of financial management activities. As the leading authority in Public Sector Financial Management Information, the team is knowledgeable, committed and output driven.

- *Financial Reporting for National Accounts* is responsible for the accounting of the National Revenue and Reconstruction and Development Programme (RDP) Fund, banking services for national Government, developing and implementing accounting policies, and preparing consolidated financial statements.
- *Financial Management Improvement* incorporates financial management improvement and training as well as internal audit services. It also assists the Institute for Public Finance and Auditing.
- *Service Charges* (Commercial Banks) is responsible for the management of the bank service charges on deposit accounts of national departments.
- *Audit Statutory Bodies* provides for compensation for shortfalls of statutory bodies and municipalities in certain instances in terms of the Auditor-General Act (12 of 1995).

Policy developments

Over the past year, the *Financial Reporting on National Accounts* unit improved the formats for financial reporting for national and provincial governments. This caters for improved disclosure of fixed assets and investments in the Annual Financial Statement for 2003/04. The process is part of the migration plan to comply with Generally Recognised Accounting Practice (GRAP) in terms of Section 216 of the Constitution. The team improved on ledger-closure dates and refined the in-year monitoring system to facilitate timeous monthly, quarterly and annual reporting. This system facilitates the capturing of forecasted expenditure and reasons for deviation thereof. The collated data is then made available for varied time-series analyses.

Over the next three years, the unit intends to develop a comprehensive set of financial policies that will provide the foundation for moving to a full accrual basis of accounting based on the standards set by the Accounting Standards Board. These policies will be developed based on the GRAP Framework – that is in respect of GRAP accounting standards on the treatment of revenue, expenditure, assets, liabilities. In addition, a consultation paper will be drafted to provide Cabinet and various stakeholders with the relevant information pertaining to the impact of GRAP in Government. It is also the intention to monitor the effectiveness of these policies, as well as to provide guidance to internal audit units on internal controls and risk management.

The formulation of GRAP standards will enable the Office of the Accountant General, more specifically the *Financial Management Improvement Programme* team, to develop new, and enhance existing, accounting policies and practices, enabling a transition from the cash basis of accounting to an accrual basis. These policies would be subject to periodic review to ensure that they are consistent with accounting and GRAP standards over time, as determined by the Accounting Standards Board. This board has to date developed GRAP standards 1, 2 and 3 (including the preface to GRAP) dealing with Presentation of Financial Statements (GRAP 1), Cash Flow Statements (GRAP 2) and Accounting Policies, Changes in Accounting Estimates and Errors (GRAP 3). The implementation of these standards will be aligned with the framework for the transition of cash to accrual base of accounting.

GRAP requires that all public-sector entities maintain complete records of revenue, expenditure, assets, liabilities and equity. Reporting on a GRAP basis shows how Government finances its activities and meets its cash-flow requirements. It also allows users to evaluate Government's ability to meet its liabilities and commitments. At the entity level, GRAP provides critical management information regarding the feasibility of financing the optimum level of services, future funding requirements for asset maintenance and replacement, and repayment requirements for existing liabilities.

In order to make informed decisions, Government requires comprehensive information for the following:

- in setting priorities,
- designing policies and programmes,
- managing operations,
- assessing progress, and
- reporting on accomplishments.

The use of the GRAP standards in financial reporting provides enhanced information for decision-making and accountability. This facilitates management by results because of the focus of the accounting systems on revenue, expenditure, assets and liabilities instead of cash flows only. In addition, GRAP standard forces management to adhere to sound financial management practices (e.g. compiling asset registers, performing year-end stock counts) because of the inclusion of information in the financial statements which may not necessarily have cash movement at that particular point of preparing financial information. Comprehensive cost accounting makes it possible to compare the consumption of resources in the production of goods or delivery of services (not the cash payments) against performance.

Implementing accrual accounting carries significant risks in view of the endemic changes it promotes and has to be managed closely and effectively. Some of the critical factors include effective change management initiatives to ensure the appropriate resources and skills are available and the availability of a technological capacity to enable the enhanced information requirements.

The lack of capacity and skills to manage the change within national and provincial departments is one of the biggest risks. Therefore, it is imperative that a skills assessment be conducted to determine the available skills in relation to the required skills and this should be the basis on which a capacity building plan is developed and adopted. The plan must accommodate the development of financial reporting skills, as well as those skills, which are required to manage the change to GRAP, such as project management skills.

The implementation of GRAP will also result in the enhancement of existing systems and processes and the introduction of additional/new systems and processes. Not only will this require substantial investment in technology, but also in change management initiatives. The financial staff will thus require additional training in using the new systems and processes. These will also place greater reliance on capacity building programs to ensure that the relevant training is available for a smooth transition.

Without the appropriate technology solution, the execution of sound financial and management controls cannot be achieved. The execution of the policies, procedures and guidelines for the implementation of financial and management controls will be dependant on the technological challenges, therefore it is crucial that these are addressed and resolved early in the transition. The latter will ensure that the significant cost issues can be brought to the fore and effective planning for such expenditure can result.

The timeframe required for the implementation of GRAP will be impacted by the outcome of the resources available for the transition. This includes financial resources to effect the concomitant technology changes required to enable the information requirements.

The team has also refined the process to draft specimen formats for annual financial statements, ensuring that there is greater uniformity in reporting across national and provincial departments. The team has engaged national and provincial departments in extensive consultation and training on the format, enhancing the implementation process. As new policies are developed over the next few years, the annual financial statements will be revised on a yearly basis to reflect these categories resulting in improved disclosure and recognition.

In respect of internal audit policies, the Internal Audit Framework was benchmarked against the King II Report and the necessary revisions incorporated into the framework. The revised framework has been circulated for comment to, among others, the Heads of Internal Audit Forum, the Auditor General and the Institute of Internal Auditors. The internal audit reports, together with the Auditor General's report provide the team with additional insight into the areas of weakness within departments and provinces. This information is used to enhance existing frameworks, policies and practices, as well as developing new policies and practices to ensure that the highlighted weaknesses are addressed. One of the key weaknesses identified is the ability of departments to implement policy due to capacity constraints.

During the past year the risk management framework has been developed and will now be circulated for comment to all stakeholders before finalisation. The process of implementation will be initiated during this budget year and is envisaged to be completed for national departments within the MTEF period.

In addition to the development of policies and practices, the team has determined that successful implementation demands further assistance and detailed guidance. The programme aims to develop a more comprehensive and detailed set of Government financial procedures and guidelines that will be continuously updated and enhanced with the issuing of the GRAP standards. It is aimed at the reduction of the timeline for the successful implementation of accounting policies on an operational level and improve the accuracy of financial information. The detailed guidelines will be supported by an early warning system on improved financial management and compliance. The latter will alert national and provincial departments to those areas or categories that may result in a qualification in their respective audit reports.

The biggest challenge facing the Office of the Accountant-General is the current lack of resources and therefore this programme is dedicated to the process of building capacity. This is clearly reflected in the budget.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 5: Financial Accounting and Reporting

Measurable objective: To achieve accountability to the general public and the international community by promoting transparency and effective management in respect of revenue, expenditure, assets and liabilities in SA public sector.

Subprogramme	Output	Measure/Indicator	2004/05 Target Milestone	2005/06 Target Milestone	2006/07 Target Milestone
Financial Reporting for National Accounts	Monthly statement of actual revenue and expenditure with regards to the National Revenue Fund	Timely publishing of accurate reports	Within 20 days after month end	Within 20 days after month end	Within 20 days after month end
	Specimen formats for annual financial statements and consolidated annual financial statements	Completed formats for annual financial statements and consolidated annual financial statements comply with PFMA, MFMA, GRAP, Treasury Regulations, Accounting Policies, Division of Revenue Act, other Legislative requirements, Cabinet Memorandums and Economic Reporting Requirements as per the ENE	30 November 2004	31 July 2005	31 March 2006
	Consolidated annual financial statements for national government for 2003/04 and finalising the 1999 - 2003	Accurate and timely Audited Consolidated Annual Financial Statements for National Government	30 September 2004	30 September 2005	30 September 2006
	Banking services to the national government – (Bank statements and confirm validity of payments)	Accurate Bank statements issued timely Bank statements reconciled to Cash book timely	2nd day of the month Daily	2nd day of the month Daily	2nd day of the month Daily

Subprogramme	Output	Measure/Indicator	2004/05 Target Milestone	2005/06 Target Milestone	2006/07 Target Milestone
Financial Management Improvement	Framework for the transition from cash to accrual base of accounting	Completed framework for transition complies to the ASB workplan and adheres to local and international best practices	31 October 2004		
	Detail implementation plan for transition from cash to accrual base of accounting	Implementation plan is in line with the framework and adheres to local and international best practices	31 March 2005		
	Skills assessment report based on a representative sample of national departments	Report identifying skills gap for key financial accounting personnel in national departments	30 September 2004		
	Accounting policies and practices in support of the framework for the transition from cash to accrual base of accounting	Completed set of accounting policies and practices are in line with the GRAP standards and adheres to local as well as international best practices	31 October 2004 to DG for approval 100% alignment to GRAP standards effective dates	100% alignment to GRAP standards effective dates	100% alignment to GRAP standards effective dates
		Accounting policies and practices implemented	100% alignment to framework for transition from cash to accrual basis of accounting	100% alignment to framework for transition from cash to accrual basis of accounting	100% alignment to framework for transition from cash to accrual basis of accounting
	Prescribe the Internal Audit and Risk Management Frameworks for National and Provincial departments	Approved frameworks are in line with International Standards, King 2 report and the principles of comparability, understandability, relevance and reliability	31 July 2004		
	Guidelines for the establishment of effective audit committees for National and Provincial Departments	Results of compliance reports on the establishment of audit committees, in terms of its function, independence and composition	31 March 2005	31 March 2006	31 March 2007
		Regular audit committee meetings regarding the internal audit reports and other governance issues	Quarterly	Quarterly	Quarterly
	Internal Quality Assessment Reviews (IQAR) in preparation for the QAR on National and Provincial Departments	IQAR reports highlighting the level of compliance to the frameworks	IQAR done on 50% of both National and Provincial departments done by 31 March 2005	IQAR done on 100% of both National and Provincial departments done by 31 March 2006	All departments will be internally quality reviewed on a 5 year rotational bases

RESOURCE PLAN

Expenditure estimates

Table 6: Financial Accounting and Reporting

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2003/04	2004/05	2005/06	2006/07
Financial Reporting for National Accounts	34 964	40 956	46 796	52 482
Financial Management Improvement	10 297	16 601	18 362	19 447
Investment of Public Monies	1	1	1	1
Service Charges (Commercial Banks)	6 781	-	-	-
Audit Statutory Bodies	11 279	8 623	9 140	9 689
Contingent Liabilities: Reinsurance Liabilities	1	1	1	1
Total	**63 323**	**66 182**	**74 300**	**81 620**
Change to 2003 Budget Estimate	115	(3 582)	(684)	
Economic classification				
Current payments	**47 322**	**53 058**	**60 393**	**66 875**
Compensation of employees	11 491	14 591	19 912	24 198
Goods and services	35 831	38 467	40 481	42 677
Interest and rent on land	–	–	–	–
Financial transactions in assets and liabilities	–	–	–	–
Unauthorised expenditure	–	–	–	–
Transfers and subsidies to:	**15 030**	**12 591**	**13 342**	**14 146**
Provinces and municipalities	50	68	68	75
Departmental agencies and accounts	14 980	12 523	13 274	14 071
Universities and technikons	–	–	–	–
Foreign governments & international organisations	–	–	–	–
Public corporations & private enterprises	–	–	–	–
Non-profit institutions	–	–	–	–
Households	–	–	–	–
Payments for capital assets	**971**	**533**	**565**	**599**
Buildings and other fixed structures	–	–	–	–
Machinery and equipment	971	533	565	599
Cultivated assets	–	–	–	–
Software and other intangible assets	–	–	–	–
Land and subsoil assets	–	–	–	–
Of Which: capitalised compensation	–	–	–	–
Total	**63 323**	**66 182**	**74 300**	**81 620**

Provinces and municipalities				
Provincial Revenue Funds				
Current	–	–	–	–
Financial and Personnel Systems	-	-	-	-
Municipalities				
Current	**50**	**68**	**68**	**75**
Regional Services Council levies	50	68	68	75
Departmental agencies and accounts (Entities)				
Current	**14 980**	**12 523**	**13 274**	**14 071**
Accounting Standards Board	3 700	3 900	4 134	4 382
Institute for Public Finance and Auditing	-	-	-	-
Audit (Auditor –General)	11 280	8 623	9 140	9 689
Capital	**-**	**-**	**-**	**-**
Accounting Standards Board -	-	-	-	
Total	**15 030**	**12 591**	**13 342**	**14 146**

Expenditure trends

The phasing out of transfers for the *Financial Management Improvement* subprogramme in 2001/02 is the largest structural change to the budget of the programme between 2000/01 and 2003/04.

The programme budget increased significantly in 2003/04 providing for a strong expansion of capacity in the Office of the Accountant-General as well as the first transfer payment to the Accounting Standards Board. The average increase of 36% per annum over the MTEF period related to the compensation of employees underlines the emphasis within this programme on capacity building. The transfer payment to the Accounting Standards Board is estimated to grow on average between 5% to 7% over the MTEF period. The latter explains the above average growth (when compared to inflation target) of 9.6% per year as envisaged for the programme over the MTEF period.

PROGRAMME 6

PROVINCIAL AND LOCAL GOVERNMENT TRANSFERS

Purpose: The *Provincial and Local Government Transfers programme* is responsible for managing the conditional grants to the provincial and local spheres of government. These are additional allocations to the equitable share allocations to the provincial and local sphere, and do not cover the many other conditional grants administered by other national departments.

Measurable objective:

a) To enhance the pace and quality of provincial infrastructure investment and maintenance of assets;

b) To promote financial management reforms in municipalities, and restructure/modernise service delivery in large-budget municipalities.

This programme includes three conditional grants:

- The Provincial Infrastructure Grant supplements the provinces' infrastructure budgets, and is intended to help accelerate the building and maintenance of social and economic infrastructure such as hospitals, clinics, schools and provincial roads. Over the next three years this grant will also provide for the funding of labour-intensive provincial infrastructure projects and agricultural infrastructure. The component of the grant which funded the rehabilitation of infrastructure damaged by floods has been phased out.
- The Local Government Financial Management Grant provides for the transfer and monitoring of funds for local government financial management reforms and the implementation of the MFMA.
- The Local Government Restructuring Grant provides for the transfer and monitoring of funds to local government to assist in restructuring initiatives for modernising service delivery and institutional and financial management in the larger municipalities.

Policy developments

Provincial Infrastructure Grant

The *Provincial Infrastructure Grant* was introduced in 2000/01 with an allocation of R300 million to address the backlogs in provincial infrastructure and to boost infrastructure spending in general. This allocation increases from R2,3 billion in 2003/04 to R3,3 billion in 2004/05, rising to R4,1 billion in 2006/07.

The rapid rise in the allocation of the Provincial Infrastructure Grant since 2000/01 has contributed to the strong growth in provincial capital expenditure over the same period. After experiencing some problems in the early years, mainly in the form of under spending, provincial spending on infrastructure (excluding maintenance) has increased significantly from under R4,0 billion in 2000/01 to a projected outcome of R11,0 billion in 2003/04 (based on the new classification). The 2004/05 provincial budgets are expected to increase such infrastructure budgets considerably. Work is also under way to develop and implement improved infrastructure planning and delivery systems to speed up the pace of project implementation.

The coming review of provincial grants for the 2005 budget will determine whether the *Provincial Infrastructure Grant* should be phased into the equitable share.

Local Government Financial Management Grant

The *Local Government Financial Management Grant* provides for the transfer and monitoring of funds for local government financial management reforms and the implementation of the Municipal Finance Management Act (56 of 2003), which was introduced in 2003. In 2000 a pilot project was started, to develop the principles of the Act in selected municipalities. The number of participating municipalities grew from the initial 7 in 2000 to 63 in 2003. National rollout began in 2003 and by the end of 2004 all municipalities will be participating in the programme. The programme provides for the gearing of international support and direct allocations to municipalities. This amounted to R50,0 million, R60,0 million, R154,2 million and R210,8 million in 2000/01, 2001/02, 2002/03 and 2003/04, respectively. The 2004 MTEF provides for R198,0 million, R198,7 million and R198,7 million.

Twenty-four of the top 30 municipalities by budget size have attempted multi-year budgeting and made significant progress in other areas of financial reforms. A few earlier pilot municipalities have even commenced with the new budget process, hosting community meetings for the 2004 budget, produced quality annual reports that speaks to financial and non financial information and performance.

The 2004 MTEF allocations for the grant are R200 million for each of the three years including the funding of the Municipal Finance Management Technical Assistance Programme (MFMTAP). The agreement with the International Bank for Reconstruction and Development to provide technical assistance in implementing municipal financial-management reforms has entered phase three with 30 advisors now placed in municipalities for a period of two years, after placing 16 during 2003. This number will expand over the medium term. Furthermore, to facilitate skills development in financial management, municipalities have used the grant to appoint over 100 municipal finance management interns.

The implementation of the Municipal Finance Management Act from 1 July 2004 provides the context for this programme in the coming few years. The National Treasury will accelerate its capacity-building programme through this grant, developing further training material, guidelines and manuals, and issuing guiding regulations to facilitate the implementation of the Act.

Local Government Restructuring Grant

Metropolitan and other large municipalities have a significant impact on the regional and national economy, and need to modernise the way they deliver services and collect revenue, and promote growth. The *Local Government Restructuring Grant* provides support to such municipalities to restructure and modernise their operations.

The grant is a demand-driven grant with municipalities applying for such grant, based on their own restructuring plans. Though slow initially, 6 municipalities have succeeded with the applications – these are Johannesburg (R525 million), Mangaung (R130 million), Msunduzi (R130 million), Cacadu district (R48 million), Buffalo City (R130 million) and Emfuleni(R130 million). These are multi-year allocations, and will be paid over the next few years. Smaller allocations have also been made to various municipalities to assist them with specific restructuring initiatives, or to prepare restructuring applications.

Over the MTEF period R1 billion has been allocated to the restructuring grant, R343 million in 2004/05, R350 million in 2005/06 and R350 million in 2006/07. These allocations will first provide for the applications approved for the six municipalities, but the balance will be available for new applications expected to be received during 2005/06.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 6: Provincial and Local Government Transfers

Measurable objective: To reinforce the pace and quality of provincial infrastructure investment and maintenance of assets, and to promote financial management reform and restructure of service delivery by municipalities

Subprogramme	Output	Measure/Indicator	2004/05 Target Milestone	2005/06 Target Milestone	2006/07 Target Milestone
Provincial Infrastructure Grant	Framework for the grant	Grant framework with clearly defined purpose, outputs and conditions of the grant, as well as a schedule for payments, in Division of Revenue Bill	Publication on Budget Day		
		Improvement of infrastructure delivery management systems, through implementation of Infrastructure Delivery Improvement Programme (IDIP) in provinces	Implementation of phase 1 (pilot) of IDIP in 9 provincial education departments, 2 health departments and 2 roads departments	Implementation of phase 2 - roll out of IDIP in all provincial health and Public Works/Roads departments	Implementation of IDIP in infrastructure programme for all provincial departments
Local Government Financial Management	Assistance in implementation of budget and financial management reforms in pilot municipalities	Grant framework with clearly defined purpose, outputs and conditions of the grant, as well as a schedule for payments, in Division of Revenue Bill	Publication by Budget Day		
		Number of pilot municipalities in which financial management programmes/ reforms are being implemented	30 pilot municipalities	50 municipalities	62 municipalities
Restructuring Grant	Assistance to restructure and modernise service delivery	Grant framework with clearly defined purpose, outputs and conditions of the grant, as well as a schedule for payments	Managing and overseeing compliance with conditions of grant by successful municipalities		
			Reviewing new applications		

RESOURCE PLAN
Expenditure estimates

Table 7: Provincial and Local Government Transfers

Subprogramme R thousand	Adjusted appropriation 2003/04	Medium-term expenditure estimate 2004/05	2005/06	2006/07
Provincial Infrastructure Grant	2 534 488	3 348 362	3 730 773	4 118 119
Local Government Financial management and Restructuring Grants	749 830	540 898	548 740	548 657
Total	**3 284 318**	**3 889 260**	**4 279 513**	**4 666 776**
Change to 2003 Budget Estimate	222 915	470 749	652 062	
Economic classification				
Current payments	**-**	**-**	**-**	**-**
Compensation of employees	-	-	-	-
Goods and services	-	-	-	-
Interest and rent on land	-	-	-	-
Financial transactions in assets and liabilities	-	-	-	-
Unauthorised expenditure				
Transfers and subsidies to:	**3 284 318**	**3 889 260**	**4 279 513**	**4 666 776**
Provinces and municipalities	3 284 318	3 889 260	4 279 513	4 666 776
Departmental agencies and accounts	-	-	-	-
Universities and technikons	-	-	-	-
Foreign governments & international organisations	-	-	-	-
Public corporations & private enterprises	-	-	-	-
Non-profit institutions	-	-	-	-
Households	-	-	-	-
Payments for capital assets	**-**	**-**	**-**	**-**
Buildings and other fixed structures	-	-	-	-
Machinery and equipment	-	-	-	-
Cultivated assets	-	-	-	-
Software and other intangible assets	-	-	-	-
Land and subsoil assets	-	-	-	-
Of Which: capitalised compensation				
Total	**3 284 318**	**3 889 260**	**4 279 513**	**4 666 776**
Details of transfer payments and subsidies:				
Provinces and municipalities				
Provincial Revenue Funds				
Current	**-**	**-**	**-**	**-**
Supplementary allocation	-	-	-	-
Mpumalanga (sec100(1)(a) of the Constitution)	-	-	-	-
Capital	**2 534 488**	**3 348 362**	**3 730 773**	**4 118 119**
Provincial Infrastructure	2 334 488	3 348 362	3 730 773	4 118 119
Flood Rehabilitation	200 000	-	-	-
Municipalities				
Current	**749 830**	**540 898**	**548 740**	**548 657**
Local Government Restructuring	539 000	342 900	350 000	350 000
Financial Management: Municipalities	151 000	129 000	125 536	121 088
Financial Management: Development Bank of Southern Africa	59 830	68 998	73 204	77 569
Total	**3 284 318**	**3 889 260**	**4 279 513**	**4 666 776**

Expenditure trends

The *Provincial Infrastructure Grant* was introduced in 2000/01 with an allocation of R300 million to address the backlogs in provincial infrastructure and to boost infrastructure spending in general. This allocation increases from R2,3 billion in 2003/04 to R3,3 billion in 2004/05, rising to R4,1 billion in 2006/07. This amounted to R50,0 million, R60,0 million, R154,2 million and R210,8 million in 2000/01, 2001/02, 2002/03 and 2003/04, respectively. The 2004 MTEF provides for R198,0 million, R198,7 million and R198,7 million.

PROGRAMME 7

CIVIL AND MILITARY PENSIONS, CONTRIBUTIONS TO FUNDS AND OTHER BENEFITS

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

Measurable objective: The programme aims to ensure the payment of benefits and awards to beneficiaries of departments, state-aided bodies and other specified bodies in terms of various statutes, collective-bargaining agreements and other commitments.

There are two subprogrammes:

- *Civil Pensions and Contributions to Medical Schemes* provides for the payment of benefits out of pension and other funds to the beneficiaries of various public-sector bodies in terms of various statutes, collective-bargaining agreements and other commitments. The subprogramme also provides for the payment of special pensions to persons who have made sacrifices or served the public interest in the establishment of a democratic constitutional order.
- *Military Pensions and Other Benefits*, which provide for the payment of military pension benefits and medical claims arising from treatment for disability, medical assistive devices, and other related expenses, in keeping with statutory requirements and commitments.

Policy developments

Pensions Administration – the operational arm of the Government Employees Pension Fund (GEPF) – administers a range of benefit and pension schemes for Government on an agency basis. The GEPF is self-funded and produces its own strategic plan and annual report.

Civil Pensions and Contributions to Funds ensures the timely payment of government contributions to medical-aid schemes in respect of civil pensioners, surviving spouses, dependants and civil pensioners who were not members of medical schemes during their period of service (by special concession). It also ensures payment to medical schemes in respect of pensioners and widows of the former Development Boards and the National Film Board.

Following an in-depth investigation, the method of payment of contributions to medical schemes is being restructured, enhancing the reconciliation process to ensure timeous and correct payment. *Pensions Administration* also aims to implement a new medical-scheme fee structure to ensure compliance with industry standards. Part of this process will include the appointment of a health risk manager to manage the business relationship between the participating entities and to implement an appropriate risk model to facilitate adequate actuarial modelling and costing of payments.

The programme is also responsible for payment of compensation benefits to Government employees in respect of temporary, total or partial disablement or as a result of injuries sustained on duty and, in cases of death, to dependants of such beneficiaries in accordance with the Compensation for Occupational Injuries and Diseases Act (130 of 1993).

The payment of special pensions to persons who have made sacrifices or served the public interest in the establishment of a democratic constitutional order also forms part of the subprogramme. This includes members of any armed or military force not established by or under any law and which is under the authority and control of, or associated with and promotes the objectives of political organisations or dependants of such persons in terms of the Special Pensions Act (69 of 1996).

The Act gives effect to Section 189 of the Interim Constitution regarding the prescription of rules for determining the persons who are entitled to receive special pensions and to provide for the establishment of structures to implement the Act – that is, the Special Pensions Board and the Special Pensions Review Board.

In addition to amendments to the Act currently under consideration by the Portfolio Committee of Finance, the special pensions process will be reviewed over the next year. The review will examine the special pensions benefit structure and the required legislative amendments to facilitate implementation.

Military Pensions and Other Benefits ensures the timeous payment of military pensions to ex-soldiers who were involved in the pre-1914 Wars, the First and Second World Wars, the Korean War, and post-1960 wars, national servicemen, South African Citizen Force members who participated in the Border War, and members from the former non-statutory forces or their dependants in accordance with the Military Pensions Act (84 of 1976).

Other benefits expended include payments to ex-service personnel for medical claims for disability, medical appliances and subsistence and travelling allowances in terms of the Military Pensions Act; and payment of an administration grant to the South African Legion to attend to the socio-economic needs of war veterans. The Legion's involvement includes facilitating communication, through the publication of policy changes, as well as acting as a mediator between the Treasury and pensioners for purposes of addressing queries and applications for pensions.

The appointment of a health-risk manager will ensure the pursuit of best practice managed health care practices, contributing to affordability and sustainability over the MTEF period.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 7: Civil and Military Pensions, Contributions to Funds and Other Benefits

Measurable objective: To ensure the payment of benefits and awards to beneficiaries of departments, state-aided bodies and other specified bodies in terms of various statutes, collective-bargaining agreements and other commitments.

Subprogramme	Output	Measure/Indicator	2004/05 Target/ Milestone	2005/06 Target/ Milestone	2006/07 Target/ Milestone
Civil Pensions and Contribution to Funds	Payment of pension benefits and contributions to funds (including Special Pensions)	15 677 beneficiaries paid monthly	Payment to be made on the first working day of each month	Payment to be made on the first working day of each month	Payment to be made on the first working day of each month
	Payment of contributions to medical-aid schemes	72 799 members paid monthly	Payment to be made by the end of the month following the month in which the expenses were incurred	Payment to be made by the end of the month following the month in which the expenses were incurred	Payment to be made by the end of the month following the month in which the expenses were incurred
	Payment of risk and administration fees to the Political Office Bearers' Pension Fund	Payment of risk and administration fees i.r.o. 900 members monthly	Payment to be made by the 7th working day of each month	Payment to be made by the 7th working day of each month	Payment to be made by the 7th working day of each month
Military Pensions and Other Benefits	Payment of military pension benefits	6 885 beneficiaries paid monthly	Payment to be made on the 1st working day of each month	Payment to be made on the 1st working day of each month	Payment to be made on the 1st working day of each month
	Payment to service providers for medical	540 claims paid to service	Payment of claims on receipt of	Payment of claims on receipt of	Payment of claims on receipt of

RESOURCE PLAN
Expenditure estimates

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

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2003/04	2004/05	2005/06	2006/07
Civil Pensions and Contributions to Funds	2 325 092	2 038 966	2 161 304	2 290 982
Military Pensions and Other Benefits	124 477	125 000	132 500	140 450
Total	**2 449 569**	**2 163 966**	**2 293 804**	**2 431 432**
Change to 2003 Budget Estimate	420 000	-	-	-
Economic classification				
Current payments	**1 419 721**	**1 502 325**	**1 592 464**	**1 688 012**
Compensation of employees	1 407 185	1 489 037	1 578 379	1 673 082
Goods and services	12 536	13 288	14 085	14 930
Interest and rent on land	-	-	-	-
Financial transactions in assets and liabilities	-	-	-	-
Unauthorised expenditure				
Transfers and subsidies to:	**1 029 848**	**661 641**	**701 340**	**743 420**
Provinces and municipalities				
Departmental agencies and accounts				
Universities and technikons	-	-	-	-
Foreign governments & international organisations	2 742	2 906	3 080	3 265
Public corporations & private enterprises	-	-	-	-
Non-profit institutions	52	55	58	62
Households	1 027 054	658 680	698 202	740 093
Payments for capital assets	**-**	**-**	**-**	**-**
Buildings and other fixed structures	-	-	-	-
Machinery and equipment	-	-	-	-
Cultivated assets	-	-	-	-
Software and other intangible assets	-	-	-	-
Land and subsoil assets	-	-	-	-
Of Which: capitalised compensation				
Total	**2 449 569**	**2 163 966**	**2 293 804**	**2 431 432**
Foreign governments and international organisations				
Current	**2 742**	**2 906**	**3 080**	**3 265**
United Kingdom Tax	2 742	2 906	3 080	3 265
Non-profit institutions				
Current	**52**	**55**	**58**	**62**
SA Legion	52	55	58	62
Households (Social benefits)				
Current	**1 027 054**	**658 680**	**698 202**	**740 093**
Civil Pensions	903 901	535 638	567 777	601 843
Of which:				
Contributions to provident funds for associated institutions	727	771	817	866
Parliamentary awards	121	128	136	144
Other beneficiaries	45 700	48 443	51 350	54 431
Pension benefit" President of RSA	639	677	718	761
Political Office Bearers' Fund	416 750	17 755	18 820	19 949
Awards iro temporary, total of partial disablement of death as a result of injury on duty	155 380	164 703	174 585	185 060
Special pensions	284 583	303 160	321 350	340 631
Augmentation of civil pensions	1	1	1	1

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2003/04	2004/05	2005/06	2006/07
Military pensions	123 153	123 042	130 425	138 250
Of which:				
Ex-servicemen	44 090	42 175	44 706	47 388
SA Citizen Force	69 031	70 833	75 083	79 588
Civil Protection	32	34	36	38
Other Benefits for Ex-servicemen	10 000	10 000	10 600	11 236
Total	**1 029 848**	**661 641**	**701 340**	**743 420**

Expenditure trends

The government contribution to medical schemes for retired civil servants carries the largest expenditure burden in this programme, growing from R1,4 billion in 2003/04 to R1,6 billion in 2006/07. Because of the accelerated adjudication of applications as a result of the appointment of a full-time Special Pensions Board and a Special Pensions Review Board by the Minister of Finance, Special Pension payments increased after 2001/02.

An additional R400 million was allocated to the item Civil Pensions and Contributions to Other Funds during the 2003 Adjustment Estimates for the enhancement of service benefits for members of Parliament vacating office after the 2004 Election.

PROGRAMME 8

FISCAL TRANSFERS

Purpose: The *Fiscal Transfer*s programme makes funds available to other Governments, public authorities and institutions in terms of the legal provisions governing the financial relations between Government and the particular, authority or institution, including international development institutions of which Government is a member.

Measurable objective: The programme aims to meet certain international and other statutory financial obligations, to meet the costs of effectively and efficiently raising revenue for the purposes of the state, and to finance intelligence gathering and other secret services in the national interest.

Domestic transfers are made to:

- The *Development Fund* of the Development Bank of Southern Africa.
- The *South African Revenue Service*, which is responsible for the collection of revenue in terms of the South African Revenue Service Act (34 of 1997).
- The *Financial and Fiscal Commission*, a constitutional body charged with making recommendations on the equitable division of revenue.
- The *Secret Services Account*, used to finance the activities of the National Intelligence Agency, the South African Secret Service, and certain activities of the Detective Service of the South African Police Service.
- The *Financial Intelligence Centre*, which is charged with assisting in combating money laundering and contributes financial regulation capacity.

Foreign transfer payments, made in terms of the relevant international obligations of Government are made to:

- *Lesotho* and *Namibia* in terms of the Multilateral Monetary Agreement between South Africa Lesotho, Namibia and Swaziland.
- The *World Bank Group.*
- The *Highly Indebted Poor Countries Initiative* (HIPC) of the International Monetary Fund.
- The African Development Fund, of the African Development Bank.

Policy Developments

Domestic transfers

South African Revenue Service

Within the context of Government's priorities, the South African Revenue Service is mindful of its broader role and is fully committed to ensuring adequate revenue collection to support these priorities. Despite difficult economic conditions, 2003/04 has been another year of focused revenue collection and enforcement performance for SARS. On an income statement basis total gross tax revenue collected amounted to R302,4 billion, falling just short of the revised estimate by R900 million and the printed estimate by R7,6 billion (on a cash basis collections were R500 million below the revised estimate and R7.2 billion below the printed estimate).

Due to the current macroeconomic conditions, SARS will be challenged to sustain revenue performance, reduce the tax gap and deliver exemplary service. Furthermore, its transformational programme Siyakha ("we are building") will be implemented in Gauteng, building on the successes achieved in KwaZulu-Natal and the Western Cape.

SARS has made significant strides since it has been granted administrative autonomy, specifically in terms of enhancing processing efficiency and implementing a more focused and coherent compliance approach. SARS will continue modernising and customising its frontline delivery for better service delivery to the South African taxpaying population and trading community. In seeking to optimise the compliance landscape in South Africa, SARS interventions will reflect the optimal balance between encouraging compliance and enforcing compliance by embedding the compliance strategy into business processing, work methodologies and organisational culture. From a customs perspective, much effort will go into developing a new customs solution: rewriting the customs code in addition to enhancing overall capability, entrenching risk proofing and improving supply chain management and customs security initiative conformance.

Over the medium term, total business solutions that provide SARS with a comparative advantage to deliver its mandate and strategic intent will provide the frame of reference. Value-added technology investments will be leveraged to successfully position SARS as an electronic revenue administration. This will entail offering multi-channel interactions, migrating to an electronic transacting environment with virtual workflow capabilities and electronic document management, as well as introducing an electronic revenue accounting and financial system.

Table 9: Summary of revenue and expenses for the South African Revenue Services

R Thousand	Estimated outcome 2003/04	Medium-term estimate 2004/05	2005/06	2006/07
Revenue				
Tax revenue	–	–	–	–
Non-tax revenue	**219 569**	**233 537**	**236 147**	**245 958**
Sale of goods and services other than capital assets	219 569	233 537	236 147	245 958
Of which:				
Admin fees	137 281	148 537	160 147	172 958
Interest	82 288	85 000	76 000	73 000
Other non-tax revenue	–	–	–	–
Transfers received	**3 450 959**	**4 113 559**	**4 297 878**	**4 555 750**
Sale of capital assets	–	–	–	–
Total revenue	**3 670 528**	**4 347 096**	**4 534 025**	**4 801 708**
Expenses				
Current expense	**3 726 903**	**4 101 026**	**4 366 369**	**4 660 838**
Compensation of employees	2 416 135	2 501 163	2 717 183	2 952 325
Use of goods and services	1 144 768	1 391 863	1 397 186	1 410 513
Depreciation	166 000	208 000	252 000	298 000
Interest, dividends and rent on land	–	–	–	–
Interest	–	–	–	–
Rent on land	–	–	–	–
Transfers and subsidies	**124 637**	**76 270**	**132 692**	**140 653**
Total expenses	**3 851 540**	**4 177 296**	**4 499 061**	**4 801 491**
Surplus / (Deficit)	**(181 012)**	**169 800**	**34 964**	**217**
Cash flow summary				
Adjust surplus / (deficit) for accrual transactions	**166 000**	**208 000**	**252 000**	**298 000**
Operating surplus / (deficit) before changes in working Capital	**(15 012)**	**377 800**	**286 964**	**298 217**
Changes in working capital	–	–	–	–
Cash flow from operating activities	**(15 012)**	**377 800**	**286 964**	**298 217**
Of which: Transfers from government	*3 792 007*	*4 602 509*	*4 748 312*	*5 033 210*
Cash flow from investing activities	**(699 232)**	**(292 800)**	**(210 964)**	**(147 717)**
Cash flow from financing activities	–	–	–	–
Net increase / (decrease) in cash and cash equivalents	**(714 244)**	**85 000**	**76 000**	**150 500**

Data provided by the South African Revenue Service

The Financial and Fiscal Commission

The Financial and Fiscal Commission (FFC) was established in terms of Section 220 of the Constitution, and of the Financial and Fiscal Commission Act (99 of 1997). The Commission does not generate funds and is financed by way of a transfer payment from the national Government, via the National Treasury. Being an independent and impartial constitutional body, the Commission is not accountable to the National Treasury, but to Parliament. Hence, in making this transfer, the National Treasury does not account for the Commission, as the Commission accounts directly to Parliament.

During 2003/04, the Commission underwent major restructuring to give effect to the amendments made to Section 221 of the Constitution (Act no 61 of 2001) and the Financial and Fiscal Commission Act (Act no 25 of 2003), reducing the number of Commissioners from 22 to nine. This process was initiated in October 2003, and is expected to be completed by the end of May 2004. The amended FFC Act now makes provision for the Commission to also make recommendations on any assignment or shift in functions resulting from any legislation.

Section 214 of the Constitution and Section 9 of the Intergovernmental Fiscal Relations Act (97 of 1997) requires the FFC to make annual recommendations on the division of revenue. Under the Act, the FFC submits its recommendations to the Minister of Finance, Parliament and provincial legislatures 10 months ahead of the financial year, or later as may be agreed between the Minister of Finance and the FFC.

The FFC tabled proposals for the 2004 MTEF year in Parliament at the end of April 2003, through its submission entitled Financial and Fiscal Commission Submission: Medium-Term Expenditure Framework 2004 - 2007. The provincial proposals were presented and discussed by the Budget Council lekgotla from 1-4 October 2003, and at its meetings of 6 June and 5 August 2003. The local government proposals were discussed at the Budget Forum of 16 October 2003, after several technical discussions between the National Treasury and organised local government. These culminated in an extended Cabinet meeting of 22 October 2003 involving Cabinet, Premiers and the chairperson of the South African Local Government Association (SALGA), which agreed on the final budget priorities and the division of revenue for the next three years.

The FFC's recommendations focus on two sets of issues. The first set of recommendations deals with the division of revenue for each sphere of government. The main issue for the national sphere is the financing of HIV and Aids. Regarding provinces, the recommendations centre on the various components or elements of the provincial equitable share formula and the location of funding for social security grants and the measurement of fiscal capacity. On local government, the recommendations focus on the funding of institutional capacity - the *I component*, and call for an evaluation of funding of rural and urban nodes, and propose a differentiated approach to municipalities. Government responds to this set of recommendations in detail.

The second set of recommendations review the intergovernmental fiscal relations system in South Africa, and covers expenditure assignment, performance measurement, poverty targeting and the provision of constitutionally mandated basic services. Given that these proposals are general proposals and not directly related to the 2004 division of revenue, Government responded to these in less detail.

Government's full response to the Commission's proposals are set out in Annexure E of the *2003 Budget Review*.

For 2004, the FFC is expected to perform its annual role of providing recommendations for the 2005 MTEF. Given political delays caused by the holding of elections, the Commission and Minister have agreed that such recommendations will be made later than normal, by 31 July 2004. The role played by the FFC will also be more demanding this year, in the light of the expected review of the provincial and local government fiscal framework, particularly as it affects the equitable share and other grant formulae. The Commission has planned an extensive work-programme to deal with these challenges, which it will outline to Parliament directly, being a Constitutional body.

The Financial Intelligence Centre

The Financial Intelligence Centre Act (38 of 2001) provides for the formation of the Financial Intelligence Centre (FIC), the aim of which is to track irregular financial practices, especially the laundering of the proceeds of crime.

The Financial Intelligence Centre Act continues to be implemented with considerable progress. It envisages the creation of an anti-money laundering environment in South Africa in accordance with international standards set by the Financial Action Task Force. The Act creates two institutions – the Money Laundering Advisory Council (MLAC), which on request, may advise the Minister on policy; and the FIC. The FIC was establishment by and initially operated as a project from within National Treasury and, although still dependent on National Treasury for a range of support services and policies, it has started operating independently. The mandate of the FIC is to receive reports from designated (so-called "accountable") institutions, store and analyse the information, and thereafter make referrals to law enforcement authorities for investigation and prosecution, and to share information with similar bodies in other countries.

Accountable institutions started reporting suspicious transaction reports (STRs) to the FIC with effect from 3 February 2003. Between then and the end of the financial year nearly 8 500 reports had been received and processed by the FIC, more than had been anticipated. The FIC expects to receive a gradually increasing number of reports as more accountable institutions become compliant and they take up their responsibilities. Moreover, it is expected that the quality of the reports will continue to improve as well. The FIC therefore estimates that it will receive 10 000 STRs during this financial year. It expects to distribute approximately 150 referrals to law-enforcement authorities for investigation during the year.

Compliance measures are being introduced in stages. The majority of businesses in the financial-services industry were compliant with the first set of measures required by June 2003 - having appointed compliance officers; run staff-training programmes and having started to report suspicious transactions (STRs) to the FIC. These measures will continue to be enforced across all accountable institutions during the next three years. Accountable institutions are required to re-identify all of their clients by 30 June 2004.

The FIC continues to take active steps to create awareness and provide guidance to accountable institutions, supervisory bodies and law-enforcement authorities. It also runs a training course for financial investigators from law enforcement authorities.

The first phase of an information technology system that enables the analysis of data has been developed by the FIC. This will continue to be enhanced during the year. A project to define the long-term information technology systems requirements of the FIC has been initiated. This will establish the necessary requirements after consultation with all stakeholders. The costs of the proposed system will only become available after the initial "scooping" exercise.

The FIC started functioning by using officials seconded from other government departments. The take-up of staff has been slow as a result of establishment processes and sourcing. During the year it is anticipated that a staff of 45 people will have been employed within the Centre. The FIC has committed itself to meeting equity requirements and to train and equip staff with the knowledge and skills required for its functioning. To this end, the FIC has been in discussion with several countries to enable staff to receive training and be placed for short periods of time for exposure to other systems.

In April 2003 South Africa underwent a Mutual Evaluation process by the Financial Action Task Force (FATF), the international standard-setting body for Anti-Money Laundering and the Combating of the Funding of Terrorism (AML/CFT), to assess the extent to which South Africa complied with the international standard and to identify deficiencies within the system. This successful evaluation enabled South Africa to be invited to become a member of the FATF. South Africa will be required to pay membership fees once these have been determined, using the OECD membership rates as a benchmark. South Africa has also become as a member of the Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG) and actively participates in its programmes. Subscription fees for ESAAMLG membership amount to US$20 000 per annum. In addition, South Africa became a member of the Egmont Group of Financial Intelligence Units thereby enabling the FIC to share information and expertise with other financial intelligence units. This does not require membership fees from member countries.

Foreign transfers

Lesotho and Namibia

The Common Monetary Area (CMA) countries (Lesotho, Namibia, Swaziland and South Africa) meet annually with a view to reconciling their respective interests in the formulation, modification and implementation of the monetary and exchange policies for the CMA and in regard to any other matters arising from the Multilateral Monetary Agreement (MMA) between CMA members. Recent issues for discussion include the frequency and content of CMA Commission Meetings and a study on an optimal currency arrangement for the CMA countries and the Southern African Development Community. The smaller members of the CMA are compensated for rand circulating in their respective territories as legal tender in terms of Article 6 of the MMA. The compensation is based on the understanding that South Africa, as issuing country, benefits from this through seignorage collection.

The HIPC initiative

In 2000 Government committed itself to contribute SDR20 million (R250 million) to the Highly Indebted Poor Country (HIPC) initiative of the International Monetary Fund and World Bank. It was agreed that the contribution would be paid in five equal annual instalments of SDR4 million each commencing in May 2000. The final instalment of SDR 4 million (R50 million) will be paid in May 2004, (The rand amount of each instalment is determined by the rand-SDR exchange rate on the date of payment).

The African Development Bank and African Development Fund

South Africa participates in replenishing the International Development Association (IDA) and the African Development Fund (ADF) resources. It is expected that negotiation for ADF 10 will be concluded at the end of 2004, while the IDA replenishment should come to an end in mid-2005. South Africa's contribution to IDA amounts to R83 million, which will be encashed over a nine-year period from June 2001 to June 2009, and represents a total annual payment of R9,23 million. South Africa is currently contributing R24,7 million to ADF, to be paid in three equal instalments of R8,2 million.

South Africa currently represents Lesotho, Malawi, Mauritius, Swaziland and Zambia on the Board of Directors. This position will be occupied until June 2004 after which one of the other constituency member countries will nominate a candidate to serve as Executive Director.

The African Development Bank's (ADB) lending strategy in South Africa was revised during 2002. The Bank's medium-term strategy will support Government's objective of adapting the economy to successful globalisation with accelerated growth and democratisation of the ownership of the means of production. Bank lending will be directed mainly towards parastatals and development finance institutions with and without Government guarantee. The ADB's non-lending activities will involve institutional building projects as well as economic and sector work. The Bank will also co-finance private-sector projects with parastatal institutions and extend lines of credit to private financial institutions. Government will monitor progress in the ADB regarding the provision of loans to parastatals on the basis of the strength of their balance sheets and without the backing of a sovereign guarantee. In 2003, the ADB concluded its Country Strategy Paper for South Africa.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 8: Fiscal Transfers

Measurable objective: To meet certain international and other statutory financial obligations, to meet the costs of effectively and efficiently raisi ng revenue for the purpose of the state and to finance intelligence gathering and other secret services in the national interest.

Subprogramme	Output	Measure/Indicator	2004/05 Target Milestone	2005/06 Target Milestone	2006/07 Target Milestone
All subprogrammes	Transfer of funds	Timely and accurate transfers to the relevant public entity/institution	Monthly or annual transfers made timeously according to pre-set or prescribed dates	Monthly or annual transfers made timeously according to pre-set or prescribed dates	Monthly or annual transfers made timeously according to pre-set or prescribed dates
South African Revenue Service	Efficient tax and revenue administration with high level of compliance and customer satisfaction	Meet the set revenue target for the financial year	Meet the revenue target of R310 billion	Meet revenue target of R338 billion	Meet revenue target of R369 billion
		Reduce the tax gap and outstanding debt	Reduce the tax gap and outstanding debt to R8,1 billion	Reduce the tax gap and outstanding debt to R8 billion	outstanding debt to R8 billion
		Achieve target turnaround time for service to public	Processing of 90% of VAT, PAYE and IT returns within 15 working days	Processing of 90% of VAT, PAYE and IT returns within 15 working days	Processing of 90% of VAT, PAYE and IT returns within 15 working days
Financial and Fiscal Commission	Advice and recommendations in terms of the FFC Act and the Intergovernmental Relations Act	Present annual submission to Parliament, the provincial legislatures and SALGA at least 10 months before the start of the annual budget cycle, or on a date as agreed. Due to the elections, the agreed later date of 31 July 2004 will apply	Printed document submitted to Parliament and distributed to the provincial legislatures, SALGA and the Minister of Finance by 31 July 2004 as agreed with the Minister of Finance	Printed document submitted to Parliament and distributed to the provincial legislatures, SALGA and the Minister of Finance by 31 July 2004 as agreed with the Minister of Finance	Printed document submitted to Parliament and distributed to the provincial legislatures, SALGA and the Minister of Finance by 30 April 2005 or on a later date as agreed with the Minister of Finance
		Comment on or submit recommendations on the Division of Revenue Bill to the Minister of Finance and Parliament at least 14 days before the introduction of the Bill in Parliament	Written submission on the Division of Revenue Bill made to the Minister of Finance and Parliament at least 14 days before the introduction of the Bill in Parliament	Written submission on the Division of Revenue Bill made to the Minister of Finance and Parliament at least 14 days before the introduction of the Bill in Parliament	Written submission on the Division of Revenue Bill made to the Minister of Finance and Parliament at least 14 days before the introduction of the Bill in Parliament

Subprogramme	Output	Measure/Indicator	2004/05 Target Milestone	2005/06 Target Milestone	2006/07 Target Milestone
		Respond to requests from stakeholders, on other policy issues and on legislative obligations according to the mandate of the FFC within 45 days	Respond to requests from stakeholders, on other policy issues and on legislative obligations according to the mandate of the FFC finalised within 45 days	Respond to requests from stakeholders, on other policy issues and on legislative obligations according to the mandate of the FFC finalised within 45 days	Respond to requests from stakeholders, on other policy issues and on legislative obligations according to the mandate of the FFC finalized within 45 days
Financial Intelligence Centre	Ensure compliance measures are adhered to by Accountable Institutions	Compliance requirements: Appointment of Compliance Officers; introduction of compliance measures; provision of training; re-identification of customers; Expand compliance to cover all sectors of accountable institutions	Expand base of accountable institutions which report suspicious and unusual transactions; Ensure full range of compliance measures; Involve supervisory bodies in monitoring compliance	Continue to expand compliance environment	Continue to expand compliance environment
		Provision of guidance through conferences, workshops, publications and training seminars	Ongoing awareness and roll-out of training	Ongoing awareness and roll-out of training	Ongoing awareness and rollout of training
	Monitor and analyse financial transactions for evidence of laundering activities	Analysis of STRs to reveal patterns of laundering activity	10 000 suspicious transaction reports from accountable institutions	12 500suspicious transaction reports from accountable institutions	12 500 suspicious transaction reports from accountable institutions
	Scoping, designing and installing IT systems	The design and specification of hardware and software requirements and all costings of IT requirements; Development process under way; Involvement of stakeholders in the process	Final design and part-development of appropriate IT systems by March 2004	Final phase of IT systems development and implementation started	75 per cent of the IT systems implemented by 2007

Subprogramme	Output	Measure/Indicator	2004/05 Target Milestone	2005/06 Target Milestone	2006/07 Target Milestone
	Amend legislation to meet deficiencies and revised international standard	Amendments to Legislation	Amendments to sections of the Act to refine existing requirements; Assess newly revised international standard and develop proposed changes	Draft changes to legislation to ensure SA compliance with international standard	Passing of and implementation of legislative amendments

RESOURCE PLAN
Expenditure estimates

Table 10: Fiscal Transfers

Subprogramme		Medium-term expenditure estimate		
	Adjusted appropriation			
R thousand	2003/04	2004/05	2005/06	2006/07
Lesotho and Namibia	304 633	176 367	199 037	224 627
Development Bank of Southern Africa	40 000	40 001	40 001	40 000
World Bank Group	1	1	1	1
Highly Indebted Poor Countries Initiative	55 000	55 000	-	-
African Development Bank	129 567	154 316	163 576	173 423
South African Revenue Service	3 792 007	4 602 509	4 748 312	5 033 210
Financial and Fiscal Commission	12 679	15 394	15 577	16 073
Secret Services	1 771 265	2 117 057	2 080 063	2 223 086
Financial Intelligence Centre	37 000	21 866	23 617	21 410
Commonwealth Fund for Technical Cooperation		3 000	3 000	3 000
Total	**6 142 152**	**7 185 511**	**7 273 184**	**7 734 830**
Change to 2003 Budget Estimate	149 547	84 922	136 230	-
Economic classification				
Current payments	**-**	**-**	**-**	**-**
Compensation of employees	-	-	-	-
Goods and services	-	-	-	-
Interest and rent on land	-	-	-	-
Financial transactions in assets and liabilities	-	-	-	-
Unauthorised expenditure	-	-	-	-
Transfers and subsidies to:	**6 142 152**	**7 185 511**	**7 273 184**	**7 734 830**
Provinces and municipalities	-	-	-	-
Departmental agencies and accounts	5 612 951	6 756 826	6 867 569	7 293 779
Universities and technikons	-	-	-	-
Foreign governments & international organisations	489 201	388 684	365 614	401 051
Public corporations & private enterprises	40 000	40 001	40 001	40 000
Non-profit institutions	-	-	-	-
	-	-	-	-
Payments for capital assets	**-**	**-**	**-**	**-**
Buildings and other fixed structures	-	-	-	-
Machinery and equipment	-	-	-	-
Cultivated assets	-	-	-	-
Software and other intangible assets	-	-	-	-
Land and subsoil assets	-	-	-	-
Of Which: capitalised compensation				
Total	**6 142 152**	**7 185 511**	**7 273 184**	**7 734 830**
Details of transfer payments and subsidies:				
Departmental agencies and accounts (Entities)				
Current	**4 858 730**	**5 716 327**	**6 048 243**	**6 409 916**
South African Revenue Services	3 450 959	4 113 559	4 297 878	4 555 750
Secret Services	1 370 092	1 569 324	1 715 216	1 822 068
Financial Intelligence Centre	25 000	18 050	19 572	16 025
Financial and Fiscal Commission	12 679	15 394	15 577	16 073
Capital	**754 221**	**1 040 499**	**819 326**	**883 863**
South African Revenue Services	341 048	488 950	450 434	477 460
Secret Services	401 173	547 733	364 847	401 018
Financial Intelligence Centre	12 000	3 816	4 045	5 385

Foreign governments and international organizations				
Current	**359 633**	**234 367**	**202 037**	**227 627**
Lesotho & Namibia	304 633	176 367	199 037	224 627
Highly Indebted Poor Countries Initiative (HIPC)	55 000	55 000	-	-
Commonwealth Fund for Technical Cooperation	-	3 000	3 000	3 000
Capital	**129 568**	**154 317**	**163 577**	**173 424**
African Development Bank	129 567	154 316	163 576	173 423
World Bank	1	1	1	1
Public corporations (Other transfers)				
Current	**40 000**	**40 001**	**40 001**	**40 000**
Development Bank of Southern Africa	40 000	40 001	40 001	40 000
Total	**6 142 152**	**7 185 511**	**7 273 184**	**7 734 830**

Expenditure trends

Fiscal Transfers makes up on average 50,3 per cent of the departmental budget over the medium term, with the bulk of the allocation made to the South African Revenue Service and the Secret Services. Expenditure grew at an annual average rate of 19,0 per cent between 2000/01 and 2003/04 as a result of additional allocations to the Secret Services and SARS. Programme expenditure is expected to grow at an annual average rate of 8,0 per cent over the medium term.

PUBLIC ENTITIES

PUBLIC ENTITIES REPORTING TO THE MINISTER OF FINANCE

A number of entities report to the Minister of Finance through governance arrangements that facilitate an arm's length relationship. This allows reporting institutions the autonomy that they require to meet their mandates, while their links to the Ministry enable them to develop strategic alignment with Government's policy goals.

The detailed three-year strategic plans of each entity are not presented here. Each produces, operates and reports according to its own strategic plan. It is, however, necessary to reflect briefly on the broad approach of each entity and its relevance to the National Treasury's strategic goals and business over the next three years.

Those entities that receive transfers from National Treasury – the South African Revenue Service, the Financial and Fiscal Commission, and the Financial Intelligence Centre - are covered in detail under Programme 8: *Fiscal Transfers* and therefore do not appear in this section. The latter reflects briefly on those entities that report to the Minister of Finance, but do not receive transfers from the National Treasury. These are the Development Bank of Southern Africa, the Financial Services Board and the Public Investment Commissioners.

South African Revenue Service

Within the context of Government's priorities, the South African Revenue Service is mindful of its broader role and is fully committed to ensuring adequate revenue collection to support these priorities. 2002/03 has been another year of enhanced revenue collection and enforcement performance for SARS. Total gross tax revenue collected amounted to R281,6 billion, exceeding the revised estimate by R1,5 billion and the printed estimate by R1,3 billion.

Due to the current macroeconomic conditions, SARS will be challenged to sustain revenue performance, reduce the tax gap and deliver exemplary service. Furthermore, its transformational programme Siyakha ('we are building') will be implemented in Gauteng, building on the successes achieved in KwaZulu-Natal and the Western Cape.

SARS has made significant strides since it has been granted administrative autonomy, specifically in terms of enhancing processing efficiency and implementing a more focused and coherent compliance approach. SARS will continue modernising and customising its frontline delivery for better service delivery to the South African taxpaying population and trading community. In seeking to optimise the compliance landscape in South Africa, SARS interventions will reflect the optimal balance between encouraging compliance and enforcing compliance by embedding the compliance strategy into business processing, work methodologies and organisational culture. From a customs perspective, much effort will go into developing a new customs solution: rewriting the customs code in addition to enhancing overall capability, entrenching risk proofing, and improving supply chain management and customs security initiative conformance.

Over the medium term, total business solutions that provide SARS with a comparative advantage to deliver its mandate and strategic intent will provide the frame of reference. Value-added technology investments will be leveraged to successfully position SARS as an electronic revenue administration. This will entail offering multichannel interactions, migrating to an electronic transacting environment with virtual workflow capabilities and electronic document management, as well as introducing an electronic revenue accounting and financial system.

The Development Bank of Southern Africa

The Development Bank of Southern Africa, a Schedule 2 major public entity, is governed by the Development Bank of Southern Africa Act (13 of 1997). Its mandate is to promote sustainable development through funding physical, social and economic infrastructure. Since its inception, the bank has approved loans and equity amounting to R28,8 billion as a result of commitments amounting to R25,7 billion.

In terms of the bank's credit ratings, Fitch reaffirmed the bank's domestic premier ratings of AAA. Moody's also upgraded the DBSA's international credit ratings in May 2002, from Baa3 to Baa2, giving it a positive rating. Standard & Poor upgraded the Bank from BBB- to BBB, with a stable rating.

The bank's key achievement on targets set for 2002/03 was the record-breaking disbursement of R3,7 billion, which was R0,9 billion in excess of its budget of R2,8 billion. The bank had assets amounting to R20,9 billion at the end of March 2003. Its budgeted disbursements for 2003/04 amount to R3,3 billion and the bank is committed to ensure that it meet the set target for 2003/04.

Accounting Standards Board

The Accounting Standards Board (ASB) was established in the latter part of 2002 and is mainly responsible for the implementation of Generally Recognised Accounting Practice (GRAP) in government.

During 2003/04 progress was made in developing a Framework for Preparation and Presentation of Financial Statements. The draft standards for the following were issued for public comment: Presentation of Financial Statements; Cash Flow Statements; Accounting Policies; Changes in Accounting Estimates; and Errors and Impairment of Assets.

The following draft standards for municipalities were also issued for public comment: The Effects of Changes in Foreign Exchange Rates; Consolidated Financial Statements and Accounting for Controlled Entities; Accounting for Investments in Associates; Financial Reporting of Interests in Joint Ventures, Revenue, Inventories, Property, Plant and Equipment; Segment Reporting; and Provisions, Contingent Liabilities and Contingent Assets.

The ASB received transfers amounting to R3,4 million during 2002/03. The ASB's expenditure was R0,5 million, resulting in the surplus amounting to R2,9 million reflected at the end of 2002/03.

Over the medium term the board aims to develop and issue a core set of GRAP that would be available for implementation by all spheres of Government. This would be in line with the planned conversion to accrual accounting by national and provincial governments and the implementation of the master systems plan for transversal systems. 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.

Financial Services Board

The Financial Services Board (FSB) supervises control over the activities of non-banking financial services and acts in an advisory capacity to the Minister of Finance. The board is financed by the financial services industry, with no contribution from Government. The board supervises those institutions and services in terms of 16 parliamentary Acts that entrust regulatory functions to the registrar of long- and short-term insurance, friendly societies, pension funds, unit trust companies, stock exchanges and financial markets. Functions include regulatory control over insider trading and the participation bonds industry, certain trust and depository institutions, 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.

During 2002/03 the FSB's gross income was R95,8 million, of which R90,0 million was total revenue for the year. Total expenditure was R98,7 million, resulting in the deficit of R2,9 million reflected at the end of 2002/03.

In designing the FSB's new overall strategic framework, expectations and needs of external stakeholders, the dynamics of the financial services environment and the resources available to the organisation have all been taken into account. A balanced scorecard approach was followed, which identified key strategic goals that need to be met to modernise regulation, but which include complying with international standards.

The FSB also wishes to embrace South Africa's principles of development and an African renaissance as envisaged locally and internationally. An evaluation of the FSB's past performance, shortcomings and strong points, goals and objectives was done, in the context of its mission to be a world-class regulator within the local context.

Public Investment Commissioners

The Public Investment Commissioners (PIC) invests and manage surplus funds on behalf of various public sector bodies. Previously the PIC was restricted to the role of a government administrative agency, investing all deposits in gilts and semi-gilts. In 1995 this was extended to include equities and property.

During 2002/03, the PIC generated revenue amounting to R31,5 million. Its total expenditure amounted to R24,2 million, resulting in the surplus of R7,3 million reflected at the end of 2003/04.

The PIC's strategic direction over the medium term is to become a world class, commercially-driven provider of asset management services to public entities. A new Bill called the Public Investment Corporation Bill, which will repeal the current PIC legislation, will be introduced in 2004/05 to corporatise the PIC and bring it within the ambit of the Financial Services Board's regulations.

Financial Intelligence Centre

The Financial Intelligence Centre (FIC) aims to track irregular financial practices, especially the laundering of the proceeds of crime.

The FIC Act (38 of 2001) and the regulations dealing with the duties of identification, record-keeping and implementing internal rules took effect on 30 June 2003. In summary, this legislation places an obligation on financial and other institutions to verify that they know who their clients are and to keep proper records of their clients' identities. These provisions are aimed at, among others, establishing control measures within these institutions to protect them from abuse by criminals who wish to conceal or disguise their proceeds of crime. These measures form part of a broader objective to combat money laundering and large-scale criminality. The FIC is taking active steps to create awareness and provide guidance to accountable institutions, supervisory bodies and law-enforcement authorities.

Considerable progress continues to be made in implementing the FIC Act, which envisages the development of an anti-money laundering environment in South Africa, largely in accordance with international standards set by the Financial Action Task Force (FATF). South Africa became a member of the FATF in June 2003. South Africa is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and will actively participate in its programmes during the year. In addition, the FIC became a member of the Egmont Group of Financial Intelligence Units in July 2003 after an assessment of the FIC was conducted.

The total revenue generated by the FIC during the 2002/03 financial year amounted to R35,0 million. The total expenditure was R2,8 million, hence a surplus of R32,2 million was reflected at the end of 2002/03.

ORGANISATIONAL INFORMATION AND THE INSTITUTIONAL ENVIRONMENT

Minister of Finance
Trevor Manuel

Deputy Minister of Finance
Jabu Moleketi

Director-General
Lesetja Kganyago

Chief Operating Officer
Logan Wort

- Implementation of the Strategic Plan
- Manage external communication
- Advise the DG on strategic issues
- Management Co-ordination

Head
Asset & Liability Management
Phakamani Hadebe

- Asset Management
- Liability Management
- Financial Operations
- Strategy & Risk Management

Head
Public Finance
Andrew Donaldson

- Protection Services
- Economic Services
- Administrative Services
- Social Services
- Technical Assistance Unit

Head
Budget Office
Vacant

- Expenditure Planning
- Public Finance Statistics
- International Development Coordination
- Fiscal Policy
- Public Private Partnership Unit

Head
Economic Policy & International Financial Relations
Vacant

- Financial Sector Policy
- International Economics
- Macro Economic Policy
- Tax Policy

Head
Corporate Services
Vacant

- Human Resources Management
- Chief Financial Officer
- Communications & IT
- Legal Services

Head
Intergovernmental Relations
Ismail Momoniat

- Local Government
- Intergovernmental Policy & Planning
- Provincial Budget Analysis

Head
Specialist Functions
Coen Kruger

- Contract Management
- Norms & Standards
- Supply Chain Policy
- Public Finance Management Act
- Financial Systems

Head
Office of the Accountant-General
Freeman Nomvalo

- National Accounts
- Financial Management Improvement
- Internal Audit
- Accounting Services

DELEGATIONS

Human Resources Management

Certain original powers vested in both the Minister and the Director-General have been devolved to divisional heads and other senior managers in order to expedite decision-making processes. Critically important in this regard is the competency of divisional heads to approve the appointment of employees below senior management level without referral to the Director-General.

The *Corporate Services* division continuously updates and reviews the delegations to enable senior managers to apply best practice people management systems in line with the various legislative frameworks.

Financial Management

Delegations in terms of Section 10 (delegations by the National Treasury) and Section 44 (powers and duties of accounting officers) of the Public Finance Management Act (1 of 1999) (PFMA) have been approved and implemented by the Executive Authority and Accounting Officer respectively. In order to ensure compliance with the above-mentioned legislation, such delegations are reviewed continuously and the relevant managers informed of their responsibilities.

CAPITAL INVESTMENT, MAINTENANCE AND ASSET MANAGEMENT PLAN

The National Treasury is in essence a financial and administrative services department, and therefore owns no fixed assets, such as buildings. Lease payments for its premises – 240 Vermeulen Street and 40 Church Square – are administered and paid for by the Department of Public Works. Further expansion of the eight divisions necessitates additional accommodation requirements over the MTEF period. The next three years will also see the completion of the refurbishment of the 240 Vermeulen Street building, the revision of the internal arrangements in 40 Church Square to optimise divisional accommodation and the refurbishment of the Cape Town office at 120 Plein Street.

INFORMATION TECHNOLOGY SYSTEMS

The restructuring process is in the final stages of completion. Business requirements have been identified and the strategic focus of the unit has been adapted to accommodate these requirements. Procedures within the section have been streamlined with a strong focus on efficient and effective service delivery in conjunction with all stakeholders.

The current information technology systems have been successfully maintained during this period and where necessary improved to streamline the daily operations of the section. Several projects have been initiated as result of the restructuring project. This includes the move towards a paperless environment for the organisation and the implementation of an improved service desk.

Treasury personnel manage the *Information Technology* team and outsource the operational component, namely support and Local Area Network (LAN) services, to Comparex Africa and Kitso solutions. Sita provides Wide Area Network (WAN) services, transversal system and Internet access to the National Treasury. Sita also provides centralised processing services (mainframe services) to the *Financial Systems* team under Programme Four: *Financial Management and Systems* and to the *Assets and Liability* team under Programme Three.

PERFORMANCE MANAGEMENT SYSTEM

The *Performance Management* unit facilitates the translation of the mission, vision and strategic objectives of the National Treasury into tangible outputs. This process enables employees to contribute towards the achievement of the National Treasury's strategic objectives. Furthermore, the Performance Management process continuously facilitates the creation of a high performance culture within the National Treasury.

The unit continues to refine and customise the Performance Management System to determine the development needs of employees and to recognise and award employees who excels in their performance.

OUTSOURCING OF SERVICES

As part of its strategy to raise internal efficiencies and maximise the use of resources, the National Treasury continually assesses whether operations and service delivery may be improved by outsourcing non-core functions to those that have the appropriate expertise. At present, the National Treasury outsources information technology operations and help-desk services, development and maintenance of financial systems, cleaning services and perimeter security services. In addition, the Department outsources its internal audit functioning line with provisions set out in the Treasury Regulation 3.2.4.

IMPLEMENTATION OF THE PFMA

The Public Finance Management Act requires that the National Treasury:

- Establish an audit committee and complete an annual internal audit;
- Undertake a risk-assessment process and develop an appropriate fraud-prevention plan;
- Implement internal controls and asset-management procedures;
- Follow robust procurement processes and implement the required procurement reforms; and
- Implement the necessary financial delegations.

The National Treasury has a good implementation track record so far. The audit committee and risk management committee are operating effectively and meet a minimum of four times per annum. The internal audit function is outsourced to PriceWaterhouseCoopers., who operate in terms of an approved internal audit plan. Each division conducts regular risk assessments in conjunction with the internal audit function. In addition, the Department has an approved fraud-prevention plan and internal controls and asset-management procedures are in place.

Over the 2004 MTEF period, the National Treasury intends to review and enhance its implementation plan and interventions to ensure continual compliance with the PMFA. Such enhancements include an annual review and assessment of the:

- Audit Committee's Terms of Reference and the Internal Audit Charter;
- Treasury Risk Management Framework;
- Fraud Prevention Plan;
- Internal controls;
- Asset-management policies;
- Procurement processes and related matters; and
- Financial delegations in terms of Section 44 of the PFMA.