National Treasury

Strategic Plan

2008/11

REPUBLIC OF SOUTH AFRICA

May 2008

The 2008/11 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.

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The 2008/11 National Treasury Strategic Plan is also available on www.treasury.gov.za

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STRATEGIC OVERVIEW

MINISTER'S STATEMENT OF POLICY AND COMMITMENT

Government's unrelenting commitment to improving the lives of all citizens through sustained economic growth is now encountering a significantly changed economic environment. While our economy has overcome obstacles and become stronger over the past 14 years, the challenges we face today are neither lesser in stature nor less threatening if left to chance.

People all over the world are watching the global economy with bated breath, closely following the news in the hope that a robust and predictable environment can be restored in the near future. Tensions are rising in response to increasing fuel and food prices internationally. The aftermath of the subprime crisis in the United States has seen financial institutions and regulators alike reacting sharply to curb access to finance for ordinary citizens.

South Africa is not immune to these economic shocks. In his State of the Nation address on 8 February 2008, President Thabo Mbeki observed that our future is largely in our own hands, and alluded to the strong fundamentals that will offer South Africans a relatively stable future in the face of strong crosswinds.

It has taken discipline and prudent financial management to arrive at the favourable economic position in which we find ourselves today. Our emphasis will therefore be on preserving – and where possible advancing – these hard-won gains through all avenues under our control or influence.

The 2008 Budget demonstrated government's commitment on key fronts – increasing fixed investment, creating jobs, boosting export capacity and improving public services – while still providing a cushion against global volatility.

South Africa's development needs largely depend on improving service delivery and modernising the state. The crucial role of local government in the delivery of free basic services, fostering sustainable communities and meeting the challenges in these areas has been recognised through the allocation of an additional R14.4 billion over the medium term. It is also envisaged to redistribute resources to poorer municipalities with limited revenue-raising abilities. Appropriately tailoring the systems of financial planning, management and governance for the South African environment is at the heart of the National Treasury's activity. The importance of receiving value for money cannot be over-emphasised in this context. Reforms will continue to focus sharply on the integrity of financial management and governance of departments and state-owned entities over the medium term.

Trevor A Manuel, MP
Minister of Finance

On the African continent, South Africa maintains its long-term commitment to promoting the principles of the New Partnership for Africa's Development – namely to deepen democracy, promote peace and security, and expand trade and investment between African countries. Funding from South Africa is received mainly in the form of support for specific projects on the continent, and also includes contributions to the concessional lending windows of the African Development Bank and World Bank. The African Renaissance Fund, which is the primary funding vehicle for bilateral support, has been allocated R1.3 billion over the next three years.

In international forums South Africa will continue to promote the reform of the International Monetary Fund and World Bank. Reducing global volatility, and promoting balanced global growth and development, will also remain high on the policy agenda through South Africa's participation in the Group of 20 (G20) forum.

Trevor A Manuel, MP
Minister of Finance

OVERVIEW OF THE ACCOUNTING OFFICER

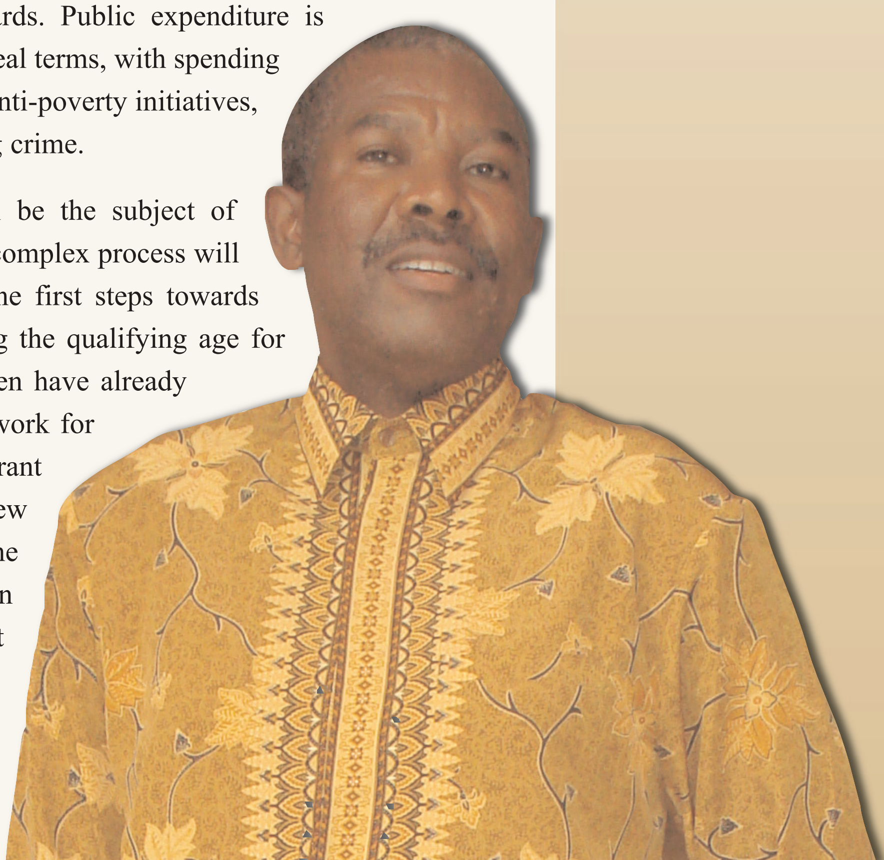
In my foreword to the 2008 *Budget Review* I observed that changes in the economic environment had led the National Treasury to revise our macroeconomic forecasts downwards for the first time in several years. While we observed a slowdown in global growth, we still enjoyed the pleasure of being able to reassure the public that the fruits of our collective efforts and sound economic policy had made the South African economy resilient.

South Africa is positioned to grow more rapidly than many major world economies over the medium term if we maintain our resolute focus on prudent financial management and make the necessary investments for growth. In this strategic plan, we set out how we will deliver on our mandate, both as an organisation and in terms of the policies for which we have responsibility.

As the custodian of public funds, the National Treasury will continue to focus on the social and economic priorities to which public funds are channelled, as well as the system of financial management that leads to effective service delivery. The 2008 Budget demonstrates government's financial commitment to sustainable long-term growth and progressive improvements in living standards. Public expenditure is projected to grow at 6.1 per cent a year in real terms, with spending priorities that include human development, anti-poverty initiatives, broadening access to services and combating crime.

Reforming the social security system will be the subject of intensified work over the years ahead. This complex process will require a series of incremental changes. The first steps towards raising means test thresholds and equalising the qualifying age for receiving old age grants for men and women have already been taken. At the same time, preparatory work for extending eligibility for the child support grant to age 15 is under way, together with a review of conditions to be attached to the grant. The grants administration function has now been successfully consolidated following the shift of this function from provinces.

To accelerate the rate of growth over the longer term, government will continue to invest in economic infrastructure and initiatives – including industrial policy measures – that improve competitiveness,



Lesetja Kganyago
Director-General: National Treasury

increase export capacity, boost employment creation and reinforce the provision of quality health and education. Extensions to agricultural support programmes aim to improve the long-term efficiency of land use, and government will provide greater support for land reform and restitution. Government will also step up the delivery of services, including housing, water, sanitation and electricity. The fight against crime is also supported with additional funding allocations.

Consistently robust revenue collections have provided South Africa with the fortuitous opportunity to evolve debt management policies from exclusively funding cash requirements to broadly supporting macroeconomic objectives. Policy will remain focused on managing external vulnerability in an unstable global financial environment. Net government debt and debt servicing costs are both projected to decline significantly by March 2011. Work on improving the financial performance and operational efficiency of state-owned entities will continue.

Changes to reporting on financial activity aim to facilitate greater accountability and management in respect of revenue, expenditure, assets and liabilities in the public sector. In this regard, the National Treasury will continue leading the implementation of generally recognised accounting practice (GRAP). This effort will be supported by the development of the integrated financial management system (IFMS) which, over the medium term, will be deployed and ultimately replace the existing financial and human resources management systems.

In terms of intergovernmental relations, we will place emphasis on supporting local government by increasing capacity-building initiatives already under way. A review of the configuration of functions and powers, and the financing model for concurrent functions between national and provincial governments, will be undertaken to improve alignment between policies and budgets.

The scope of engagement on international economic issues has widened considerably in the past year. Priority areas will include development policies for African economies and increasing the level of aid flows. These will be facilitated through South Africa's participation in various forums of the African Development Bank, Work Bank and United Nations Economic Commission for Africa, among others.

A key element of our strategy is to consistently find ways to improve the operations and working environment of the National Treasury to render it more conducive for high-quality productivity and continuous learning.

We look forward to concluding the planned corporate reorganisation which, while certainly not a step-change in structure, will contribute significantly to unlocking latent organisational capacity. We have also renewed our commitment to more internal training programmes and systematically more transparent internal communication mechanisms.

As always, the National Treasury will endeavour not only to meet our mandate but to continuously enhance the quality of our work. Our team is poised to transcend previous achievements and we look forward to this exciting journey.

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 processes. 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 MANDATE

The National Treasury's legislative mandate is based on chapter 13 of the Constitution. As set out in the Public Finance Management Act and other laws governing financial and fiscal affairs, the Treasury is mandated to promote the national government's fiscal policy and the coordination of macroeconomic policy; ensure the stability and soundness of the financial system and financial services; coordinate intergovernmental financial and fiscal relations; manage the budget preparation process; and enforce transparency and effective management in respect of revenue and expenditure, assets and liabilities, public entities and constitutional institutions.

Parliamentary Services

The Minister of Finance, as the political principal of the Department, regards active collaboration with Parliament as vital. The National Treasury will continue to maintain a strong relationship with parliamentary committees during the period ahead, including the Portfolio Committee on Finance, the Select Committee on Finance, the Joint Budget Committee and the Standing Committee on Public Finance.

SERVICE DELIVERY ENVIRONMENT

Job creation

Government policy has contributed to steadily increasing employment. Unemployment is presently at 23 per cent, down from a peak of 30 per cent in 2001. Continued job creation remains central to the challenge of advancing standards of living for all South Africans. Government will continue to support labour-intensive initiatives such as the expanded public works programme. Funding has also been increased for delivery of municipal services and environmental impact projects in a more labour-intensive fashion. Labour centres will be afforded greater support, with the aim of bridging information gaps between the location of work opportunities and suitably qualified individuals. Leadership and mentorship schemes, especially in technical areas, will also be encouraged through both spending and taxation measures.

Investing in productive capacity

Investing in people, infrastructure and institutions will accelerate economic growth. Both the public and private sectors are significant contributors to gross fixed capital formation. Since 2001, gross fixed capital formation rose from 15 per cent to 21 per cent of GDP. The goal is to raise gross fixed capital formation to 25 per cent over the years ahead and, although a large portion of this investment will be funded by government and parastatals, it is notable that private-sector investment is presently at record-high levels. These investments will not only improve efficiency and broaden access to services – they will also make the economy more inclusive in general.

Raising net exports

South Africa’s current account shifted from a surplus of R10 billion in 2003 to a deficit of R143 billion in 2007. This deficit is largely the result of relatively low savings rates, increased capital import values associated with investment and the inability of the local market to meet rising domestic demand. Microeconomic support measures will be introduced to reduce regulatory red tape, improve the efficiency of port operations and offer research and development incentives, assistance with technological development, marketing interventions and targeted training and skills development programmes.

Reducing poverty and inequality

Although the number of people living in poverty has declined in South Africa, poverty and inequality remain defining features of the country’s economic landscape. Government's comprehensive anti-poverty strategy synthesises several policies and programmes that are already under way. The strategy depends primarily on three areas: broadening social assistance, creating jobs and enhancing the social wage. In 2007, government announced that it would prepare proposals for a significant reform of the social security system, providing a measure of security for all South Africans.

Improving service delivery

Strong growth in spending over the past five years has not been matched by a concomitant improvement in service delivery. The period ahead will be characterised by a greater emphasis on implementation – building institutions, capacity and systems geared to deliver more efficiently. To enforce greater accountability, publications such as the Estimates of National Expenditure will include more explicit measurable objectives and performance indicators for national departments. Under the auspices of the Presidency's government-wide monitoring and evaluation system, the National Treasury has issued guidelines to support the development of sharply focused indicators that can be used to enhance accountability.

ORGANISATIONAL ENVIRONMENT

With the National Treasury having built a strong sense of identity and established a stable working environment since the merger of the Departments of Finance and State Expenditure during 2001, consideration is now being given to options for further improving the organisational structure and working environment. The main context of this restructuring is:

- The fiscal envelope has consistently grown over the past seven years.
- The National Treasury has seen significant growth in both staff numbers and functions for which it is responsible since comprehensively reviewing its mandate in terms of the Public Finance Management Act (1999, as amended).
- The challenges of maintaining economic growth and financial stability have intensified in recent times, both globally and nationally.

This context has provided the National Treasury with the opportunity to review its organisational structure in terms of its medium-term strategy. The preparatory phases of this initiative have already been concluded, with a review of the establishment and identification of functional areas requiring adjustments. Various organisational units have already been adjusted in relation to the medium-term perspective and internal discussions have been initiated to design future changes. The following divisional adjustments are now at varying stages of implementation:

Economic Policy and International Relations

- Separating the Economic Policy, International and Regional Economics and Tax and Financial Sector Policy into three distinct divisions
- Establishing a donor agency in line with South Africa's status as an emerging donor country.

Asset and Liability Management

- Restructuring the Asset Management component of the Asset and Liability Management division for more robust engagement with state-owned entities.

Public Finance, Budget Office, Intergovernmental Relations and Office of the Accountant-General

- Augmenting the capacity of the Office of the Accountant-General to make available specialised auditing and monitoring capabilities as required by legislation
- Reviewing the modality of technical advice being provided to recipients of a broad range of financial management reforms and services
- Conceptualising a rationalised platform for delivery of financial statistics.

Office of the Director-General

- Establishing centralised functional areas responsible for legal opinion and legislative drafting on behalf of the entire organisation
- Increasing the capacity of the Communications unit, with the introduction of specialised sub-units
- Reviewing the structure and function of the Chief Operations Officer.

Corporate Services

- Completing the knowledge management approach to be followed and appropriately designing the delivery team.

This corporate reorganisation, constituting operational optimisation rather than a step-change in the structure of the National Treasury, would not have been possible without the team's strong sense of common vision. In particular, the National Treasury's senior management has negotiated a number of strategic plans over the years and it is clear that our operational stability is underpinned by convergence in strategic thought. Strategic plans completed over the past five years, internal communications and the country's economic context have served as inputs to this optimisation.

The National Treasury has always viewed its people as its most valuable asset and we will continue to do everything in our power to offer an environment conducive to high achievement and active learning. A cohesive, transparent team and rigorous internal training programmes are seen as the cornerstones of this achievement, and these are envisaged to gain even greater momentum in the years ahead.

RESOURCE PLAN
Expenditure estimates

Table 1 National Treasury

Programme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2007/08	2008/09	2009/10	2010/11
1. Administration	218 983	181 632	196 724	204 865
2. Public Finance and Budget Management	223 690	195 881	205 870	208 502
3. Asset and Liability Management	75 953	61 359	61 400	60 788
4. Financial Management and Systems	368 710	557 624	702 159 5	777 915
5. Financial Accounting and Reporting	94 096	88 917	93 038	97 832
6. Economic Policy and International Financial Relations	117 158	82 548	79 837	83 573
7. Provincial and Local Government Transfers	7 384 275	7 956 707	9 966 697	11 494 056
8. Civil and Military Pensions, Contributions to Funds and Other Benefits	2 238 308	2 352 688	2 440 302	2 398 568
9. Fiscal Transfers	9 027 194	9 840 836	10 589 681	11 572 220
Total	**19 748 367**	**21 318 192**	**24 335 708**	**26 898 319**
Direct charge against the National Revenue Fund	**225 798 501 225**	**250 612 977**	**276 591 314**	**297 462 198**
Provinces Equitable Share	172 861 501	501 199 376	225 466 314	246 306 198
State Debt Costs	52 937 000	51 236 000	51 125 000	51 156 000
Total	**245 546 868**	**271 931 169**	**300 927 022**	**324 360 517**

Economic classification				
Current payments	**53 906 411**	**52 352 923**	**52 428 033**	**52 551 477**
Compensation of employees	294 319	326 807	341 656	358 740
Goods and services	729 092	790 116	961 377	1 036 737
of which:				
Communication	5 882	6 230	6 771	7 273
Computer services	327 357	503 405	647 057	719 173
Consultants, contractors and special services	177 632	121 221	135 936	126 562
Inventory	20 218	17 149	18 748	19 611
Maintenance, repairs and running costs	4 124	2 720	2 857	3 522
Operating leases	23 454	21 630	23 061	24 559
Travel and subsistence	63 277	38 265	39 391	42 100
Personnel agency fees	7 370	5 899	5 944	5 994
Audit fees	6 143	3 627	5 869	6 245
Municipal services	8 476	10 667	13 648	17 172
Interest and rent on land	52 937 000	51 236 000	51 125 000	51 156 000
Financial transactions in assets and liabilities	–	–	–	–
Transfers and subsidies	**191 555 762**	**219 566 884**	**248 487 324**	**271 798 630**
Provinces and municipalities	180 181 976	207 210 699	235 263 011	257 751 254
Departmental agencies and accounts	8 275 139	9 192 545	10 020 072	10 837 321
Universities and Technikons	5 000	5 456	5 456	5 000
Public corporations and private enterprises	278 667	296 837	269 321	285 481
Foreign governments and international organisations	594 099	527 808	526 145	557 206
Non-profit institutions	65	68	71	75
Households	2 220 816	2 333 471	2 403 248	2 362 293
Payments for capital assets	**30 695**	**11 362**	**11 665**	**10 410**
Machinery and equipment	28 557	9 933	10 230	9 654
Software and other intangible assets	2 138	1 429	1 435	756
Total	**245 546 868**	**271 931 169**	**300 927 022**	**324 360 517**

Expenditure trends

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

Between 2004/05 and 2007/08, expenditure increased from R13.5 billion to R19.7 billion, at an average annual rate of 13.4 per cent, mainly attributable to transfers. Expenditure is expected to increase substantially over the medium term expenditure framework (MTEF) period, from R19.7 billion in 2007/08 to R26.9 billion in 2010/11, at an average annual rate of 10.8 per cent. This is mainly due to increases in transfers to the infrastructure grant to provinces, SARS and the Secret Services.

Excluding transfer payments, National Treasury's allocation grows from R1 billion in 2007/08 to R1.4 billion in 2010/11, at an average annual rate of 9.8 per cent. Increased spending on the operational budget is mainly due to implementing the integrated financial management system, rolling out training programmes in conjunction with the South African Management Development Institute (SAMDI), and the once-off costs of chairing the G20 and hosting the Annual Bank Conference on Development Economics.

The department will realise efficiency savings on its operational budget of R11.2 million, R14.9 million and R17.9 million for 2008/09, 2009/10 and 2010/11. Allocations for consultants, entertainment and travelling have been targeted.

Additional allocations over the MTEF period (2008/09, 2009/10 and 2010/11) include:

- R400 million, R800 million and R1.5 billion for the infrastructure grant to provinces
- R30 million, R100 million and R150 million for the local government financial management grant
- R204 million, R312 million and R676 million for SARS
- R120 million, R126 million and R135 million for the Secret Services.

The department is responsible for the main statutory transfers to provincial governments. More information on these transfers can be found in chapter 7 and annexure E of the 2008 *Budget Review* and the 2008 Division of Revenue Bill. The National Treasury vote also includes a provision for servicing government's debt obligations, which are a direct charge against the National Revenue Fund in terms of section 73 of the PFMA. In 2007/08, expenditure on state debt costs will be R107 million lower than indicated in the 2007 Adjusted Estimates, mainly due to a lower borrowing requirement.

Departmental receipts

The main items of revenue are the interest on government deposits and dividends received from the South African Reserve Bank. Over the medium term, revenue is expected to increase from R4.6 billion in 2007/08 to R7.9 billion in 2010/11. Interest on exchequer investments is affected by domestic and international interest rates, exchange rates and the level of government's cash balances.

PROGRAMME STRATEGIC PLANS

Programme 1
ADMINISTRATION

Purpose: Provide strategic support to the National Treasury, giving managerial leadership to the work of the department.

Measurable objective: The programme aims to ensure effective leadership, management and administrative support to the National Treasury through continuous refinement of organisational strategy and structure in compliance with appropriate legislation and best practice.

There are four subprogrammes:

- The *Minister* subprogramme comprises the Ministry of Finance, parliamentary and ministerial support services.
- The *Deputy Minister* subprogramme provides for the Office of the Deputy Minister of Finance and related support services.
- *Management* includes the Office of the Director-General and related support services.
- Corporate Services supports the administration and smooth running of the department.

Policy developments

A priority for the Minister of Finance, as both a Member of the Executive and as a Member of Parliament, is interaction with the legislature. The Ministry of Finance collaborates closely with MPs and with parliamentary committees. Central to this is the *Parliamentary Office*.

The *Parliamentary Office* is a service provider to the Minister of Finance, the three organisations under his executive authority (the National Treasury, the South African Revenue Service and Statistics South Africa) and the 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.

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 financial legislation and policies to the legislature over the medium-term expenditure framework (MTEF) period.

The *Office of the Director-General* is responsible for providing strategic direction to the National Treasury, in keeping with the policy imperatives set by Cabinet.

Dedicated capacity has recently been established in the *Office of the Director-General* to oversee and facilitate participation by the National Treasury in the Forum of South African Directors-General and the various Cabinet clusters. The aim is to maximise the National

Treasury's contribution to the development of action plans giving effect to South Africa's economic and social development policies.

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

The division consists of a number of functional support units: *Human Resources Management*, *Knowledge Management*, the *Project Support Office*, *Security Management, Facilities Management, Information Technology, Financial Management* and *Internal Audit*.

Over the MTEF, the division plans to roll out a customer relationship management (CRM) strategy that prioritises customer service delivery. Much work still needs to be done to sustain acceptable levels of efficiency and excellence, and to facilitate a repositioning. *Corporate Services* has reviewed its strategy. Its role in supporting the overall goals of the department will hinge on:

- Ensuring delivery of cost-effective transactional services as a key financial output through the achievement of an unqualified audit report
- Maintaining a client-driven approach
- Improving support for internal processes by maintaining and enhancing systems and processes
- Contributing to the establishment of a knowledge management culture and implementing an efficient information technology architecture that supports the achievement of the National Treasury's goals
- Supporting learning and growth objectives by refining the leadership development plan and talent management plan.

Over the next three years *Human Resources Management* will focus on enhancing the efficiency of its services through reorganising the recruitment function and realigning the human resources structure based on the organisation's strategic outlook. The unit will continue to implement the talent management strategy to ensure that HR functioning is in line with best practice. Specific focus will be placed on the attraction, development and retention of high-performing and scarce talent.

Financial Management will focus on maximising compliance with all relevant financial statutes and regulations, notably the Public Finance Management Act (PFMA). The unit has largely achieved compliance and, most importantly, continuously enhances the financial management environment of the department.

In line with good governance the *Risk Management* function has been established. The unit has introduced a governance review committee that will assist the Accounting Officer to review and implement departmental policies, prescripts and/or instructions.

The objectives of *Facilities Management* are to focus resources on meeting user needs to support and optimise the working environment for all people working at and frequenting the National Treasury.

Security Management is responsible for the preservation of a safe and secure environment for employees, visitors and contractors. The unit's security manual has been approved by the director-general and it is implementing measures to ensure protection of the department's assets, information and personnel.

The *Information Technology* unit is responsible for the design, implementation and maintenance of information and communications technology architecture. The unit is implementing the new IT organisational structure.

The *Internal Audit* team conducted a benchmarking exercise with the Canadian and Australian Treasuries during 2007. The aim was to learn and adopt best practice. Based on this exercise, the team developed a strategic plan and structure that will enable the internal audit function to be undertaken fully in-house. The strategic plan and proposed structure have been tabled and recommended by the Audit Committee.

The *Knowledge Management* unit's focus is to capture, collate and disseminate the intellectual capital of the National Treasury, which consists mainly of business processes, procedures, policies, documents, operational records, presentations and e-learning material.

The *Project Support Office* is a new concept focused on providing project management skills and coaching to *Corporate Services* business units. A pilot will inform the decision of whether this service will be extended across the organisation over the next three years.

The Legal Services unit provides a comprehensive 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 continue to provide legal services on a wide range of domestic and international law.

The *Communications* unit in the National Treasury provides a strong media liaison service to the Ministry of Finance and the Department. The unit contributes significantly to the effective management of communications, publications and events of the Ministry of Finance and the Department. Key events include the annual budget tabled in Parliament in February, the *Medium Term Budget Policy Statement*, national and international conferences, International Monetary Fund and World Bank meetings. The unit also handles high volumes of queries from the public.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Programme 1: Administration

Measurable objective: To ensure effective leadership, management and administrative support to the department through continuous refinement of organisational strategy and structure in compliance with appropriate legislation and best practice.

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
Minister and Deputy Minister of Finance	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 – assessment system in place		
Management	The National Treasury's strategic direction aligned to the country's development policy needs	Strategic plans developed by the National Treasury and approved by Parliament	Achievement of all targets set out in the National Treasury's strategic plans		
Corporate Services (CS)	Policies, procedures and standards in place and understood, regularly reviewed and innovated	Good governance practices annually reviewed, audited and communicated	Good governance gaps identified and corrective measures implemented annually	Good governance gaps identified and corrective measures implemented annually	Good governance gaps identified and corrective measures implemented annually
	Develop and implement an integrated Client Relationship Management Strategy	Client satisfaction rating above 67% attained	Client satisfaction rating of 70% attained	Client satisfaction rating of 73% attained	Client satisfaction rating of 73% attained

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
	NT has adequate, safe and secure working facilities	Quarterly review and acquisition of additional accommodation, where applicable, of NT's requirements	Quarterly review and acquisition of additional accommodation, where applicable, of NT's requirements	Quarterly review and acquisition of additional accommodation, where applicable, of NT's requirements	Quarterly review and acquisition of additional accommodation, where applicable, of NT's requirements
	Contribute to the establishment of a knowledge management culture and system in National Treasury	Quarterly assessment of knowledge management systems and infrastructure	Quarterly assessment of knowledge management systems and infrastructure	Quarterly assessment of knowledge management systems and infrastructure	Quarterly assessment of knowledge management systems and infrastructure

RESOURCE PLAN
Expenditure estimates

Table 2: Administration

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2007/08	2008/09	2009/10	2010/11
Minister 1	951	1 019	1 072	1 127
Deputy Minister 2	773	828	871	916
Management	53 878	40 661	44 308	45 785
Corporate Services	111 815	96 096	102 775	104 158
Property Management	51 566	43 028	47 698	52 879
Total	**218 983**	**181 632**	**196 724**	**204 865**
Change to 2007 Budget estimate	75 251	–	22 519	16 306

1. Payable as from 1 April 2007. Salary: R761 053. Car allowance: R190 262.

2. Payable as from 1 April 2007. Salary: R618 566. Car allowance: R154 641.

Economic classification				
Current payments	**196 399**	**176 901**	**191 536**	**201 163**
Compensation of employees	64 631	74 983	78 723	82 667
Goods and services	131 768	101 918	112 813	118 496
of which:				
Communication	*3 194*	*3 428*	*3 713*	*4 020*
Computer services	*16 174*	*14 264*	*17 144*	*17 696*
Consultants, contractors and special services	*22 032*	*16 875*	*15 850*	*13 828*
Inventory	*10 626*	*5 261*	*5 956*	*6 279*
Maintenance, repairs and running costs	*2 672*	*1 382*	*1 443*	*1 513*
Operating leases	*21 411*	*19 834*	*21 097*	*22 474*
Travel and subsistence	*9 963*	*10 089*	*10 120*	*10 787*
Personnel agency fees	*3 820*	*1 823*	*1 770*	*1 737*
Audit fees	*3 895*	*2 195*	*4 280*	*4 350*
Municipal services	*8 476*	*10 667*	*13 648*	*17 172*
Financial transactions in assets and liabilities	–	–	–	–
Transfers and subsidies	**1 971**	**1 048**	**1 269**	**1 315**
Provinces and municipalities	–	–	–	–
Departmental agencies and accounts	270	220	240	254
Public corporations and private enterprises	73	28	29	31
Households	1 628	800	1 000	1 030
Payments for capital assets	**20 613**	**3 683**	**3 919**	**2 387**
Machinery and equipment	19 122	2 633	2 869	2 007
Software and other intangible assets	1 491	1 050	1 050	380
Total	**218 983**	**181 632**	**196 724**	**204 865**

Details of major transfers and subsidies:				
Departmental agencies and accounts				
Departmental agencies (non-business entities)				
Current	**270**	**220**	**240**	**254**
Finance, Accounting, Management, Consulting and other Financial Services (Fasset) Sector Education and Training Authority	270	220	240	254

Expenditure trends

Expenditure between 2004/05 and 2006/07 increased from R109.4 million to R161.6 million, mainly due to increased legal costs, mapping business processes and the centralisation of internship and talent management intakes. Between 2006/07 and 2007/08, expenditure increased by 35.5 per cent, reaching R219 million. This was due primarily to the rolling out of initiatives to improve productivity and increased internal demand for legal services.

Expenditure is projected to decrease from R219 million in 2007/08 to R181.6 million in 2008/09 as some of these initiatives are concluded. The budget is expected to stabilise over the MTEF period, reaching R204.9 million in 2010/11.

Programme 2

PUBLIC FINANCE AND BUDGET MANAGEMENT

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

Measurable objective: The programme aims to promote growth, social development and poverty reduction through sound fiscal and financial policies, and the effective, efficient and appropriate allocation of public funds. Measurable objectives are to:

- Prepare a national budget that gives effect to government's economic, fiscal, social and development goals.
- Publish the *Budget Review, Estimates of National Expenditure and Medium Term Budget Policy Statement* and appropriation legislation, containing relevant, accurate and clear financial information and associated indicators of service delivery and performance.
- Contribute to public policy and programme development, sound planning, budgeting and project management, including increased support to public finance reform in provinces and municipalities.
- Promote public and private investment in infrastructure and public services by providing technical support for capital expenditure planning and public private partnerships (PPPs), advice on financing alternatives for municipal development and financial assistance for neighbourhood development projects.
- Support improved monitoring and analysis of public expenditure and service delivery and the appropriate use of public and private financial resources for social and economic development and infrastructure investment.

The programme is organised into four divisions:

- *Public Finance* provides financial and budgetary analysis of government programmes, advises on policy and service delivery trends, and manages the National Treasury's relations with other national departments.
- The *Budget Office* provides fiscal policy advice, oversees expenditure planning and the national budget process, leads the budget reform programme, manages official development assistance and compiles 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.
- *Technical and Management Support* includes advisory and capacity-building initiatives focused on PPPs, project management, infrastructure service delivery and public finance information systems. A dedicated unit has also been established to support budgetary planning related to the 2010 FIFA World Cup.

Policy developments

Public Finance

The *Public Finance* teams are the National Treasury's links with the policy and budget units of all national departments and other government entities. Better budgeting at the national level depends largely on healthy cooperative relationships with other departments, contributing to enhanced policy and improved expenditure management.

The responsibilities of the division are divided among five sectoral teams that span the range of government services and functions.

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

- Inputs into and management of the joint intergovernmental technical committees in the health, education and social development functions
- Support to the Departments of Education and Labour for consolidation and renewal of further education colleges and strengthening the skills development programme
- Implementation of improved school funding norms and development of the higher education planning and funding framework
- Social assistance and social security reforms, including revisions to the means tests for social assistance grants and various legislative reforms
- Reform of conditional grants for health services, oversight and regulation of the medical schemes industry, and restructuring of the Medicines Control Council.

Issues under review in the *Economic Services* area include:

- Policy and financing of rural development and agricultural support for small farmers, particularly beneficiaries of land reform
- Supporting the development of policy options for fiscal support for broad-based black economic empowerment
- Implementation of the national research and development strategy, focusing on improving the performance of the science councils and the policy impact of public spending in this sector
- Assistance to the Department of Trade and Industry in the adjudication of projects qualifying for critical infrastructure funding support, oversight of programmes relating to industrial development zones and other incentives promoting investment in the economy.

Infrastructure and Urban Development priorities include:

- Improved infrastructure planning, monitoring and project evaluation
- Acceleration in the delivery of low-income housing and upgrading of informal settlements, and enhancing coordination of investment in community infrastructure
- Support for the Department of Water Affairs and Forestry in its delivery and governance of water resources and services
- Support for universal access to electricity, investment in power generation capacity, electricity demand management and long-term challenges in the energy sector

- Initiatives that promote public transport infrastructure and commuter services
- Digitisation of signal distribution and support for initiatives that expand access to information and communication technology.

Protection Services projects and initiatives include:

- Participation in the interdepartmental review of the criminal justice system
- Support for programmes aimed at improving court management, increasing case-flow and raising conviction rates
- Monitoring the construction of new correctional facilities, which will reduce prison overcrowding, and support for research and planning aimed at the rehabilitation of offenders to reduce recidivism
- Support for the development and implementation of personnel policies that will improve performance of the integrated justice sector
- Oversight of the special arms procurement programme of the South African National Defence Force, and assistance relating to budgeting and financing of defence infrastructure and modernisation

Reform of the budgeting and parliamentary oversight of constitutional institutions.

The *Administrative Services* team is focused on:

- Helping the South African Management and Development Institute to develop its training academy for enhanced public-sector skills
- Assisting the Department of Public Works in managing its property portfolio and putting government accommodation services on a business-oriented footing
- Technical assistance and support for the Department of Home Affairs turnaround programme to enhance capacity, infrastructure, service delivery and management systems
- Supporting the Department of Foreign Affairs with the improved management and acquisition of foreign property, as well as planning for development assistance and aid to other African nations
- Assisting Statistics SA in budgeting and planning for household surveys and the 2011 national census
- Improving access to government services, including the Thusong Service Centre programme and the rollout of electronic communication between citizens and government.

Budget Office

The national budget provides resources for the implementation of government's Programme of Action, taking into account available funds, capacity and the quality of departments' implementation plans. The core outputs of the *Budget Office* are the annual budget and *Medium Term Budget Policy Statement*, which are tabled in Parliament by the Minister of Finance in February and October respectively.

Continued strong growth in government expenditure and the significantly improved fiscal position enable government priorities to be financed sustainably, without placing an excessive burden on the economy or future generations. Strengthened fiscal analysis capacity will deepen our understanding of the impact of fiscal trends on development. Improving the planning, coordination and monitoring of infrastructure spending remains a key priority, for which a capital budgets committee has been established.

Much of the work of the *Budget Office* is focused on coordinating government's spending and revenue plans with its longer-term policy and strategic priorities, in support of the Ministers' Committee on the Budget, the Budget Council and the Treasury Committee. A key element of the budget reform programme is increased political oversight over the annual budget process and improving the usefulness of related documentation to enhance public and legislative oversight. In support of this objective, the National Treasury has published a *Framework for Managing Programme Performance Information* that provides guidance to all state institutions in developing performance information systems. As part of our efforts to improve the non-financial performance information that complements information on the allocation of resources, the 2008 *Estimates of National Expenditure* includes more detailed and quantifiable objectives and measures, and reorganised performance indicators for departments and selected public entities. As the reliability of this information improves, Parliament, policy makers, civil society and the public can use this information as a tool to hold the executive accountable for results achieved and value for money in public expenditure.

The *Expenditure Planning* unit in the *Budget Office* will continue to work in partnership with national departments and provinces, enhancing and strengthening the measurable objectives, output measures and performance indicators set out in the annual *Estimates of National Expenditure* and provincial budget statements. Collaboration with other African governments in budget reform and expenditure management will grow.

The *Budget Office* includes a dedicated team responsible for financial aspects of public-sector personnel policy, and a *Public Entities Governance* Unit that assists in overseeing the structure, financing and governance of non-departmental agencies in the public sector.

Public Finance Statistics has concluded a review of the government chart of accounts in collaboration with the Office of the Accountant General. The review will be extended to include a new reporting procedure for infrastructure projects and capital spending over the year ahead. Progress is also being made in monitoring and reporting on the finances of non-business public entities. The National Treasury hopes to be able to produce a consolidated national government budget incorporating the finances of all departments and public entities by 2010.

Over the next three years, *International Development Cooperation* will focus on strengthening the alignment of official development assistance (ODA) with government's spending priorities. Key considerations are ensuring South African-led ODA, the optimal utilisation of limited resources in support of South Africa's development priorities and advancing long-term sustainability. A knowledge management system will be developed to enhance data integrity. The unit will continue to contribute to regional and international development cooperation options.

Intergovernmental Relations

Coordination of intergovernmental budgeting, budget execution, monitoring and reporting are crucial to government's effectiveness. In 2008/09, provinces and municipalities are due to receive R279.9 billion or 50.6 per cent of non-interest allocations (excluding the contingency reserve) to implement national priority programmes.

Emphasis in the period ahead is on improving the overall performance of local government by stepping up initiatives that strengthen capacity and channelling more resources to poorer municipalities. The 2008 Division of Revenue Act (including the explanatory memorandum to the division of revenue) outlines detailed allocations to provinces and municipalities, and contributes to a shift of municipal infrastructure allocations to poorer municipalities with limited revenue-raising capacity. A review of the municipal fiscal framework is under way to ensure better alignment between revenue-raising capacity and expenditure responsibility. The local government equitable share formula is to be reviewed to improve its redistributive thrust.

Provinces and local government are to share the national fuel levy from 1 April 2009. A thorough analysis is to be undertaken to determine how these funds will be apportioned.

To improve alignment between policies and budgets, a review will be conducted on the configuration of powers and functions, and the proper financing model for concurrent functions shared between national and provincial governments.

In 2008 the National Treasury plans to publish a *Local Government Budget and Expenditure Review* covering the financing and service delivery developments in the 283 municipalities. A detailed summary of provincial budgets and expenditure will also be presented to Parliament.

Intergovernmental Relations is responsible for preparing all grant allocations for provincial and local government budgets, including the annual Division of Revenue Bill published as part of the national budget.

The division also monitors the implementation of provincial and municipal budgets. For the latter, attention is focused on 17 non-delegated municipalities that constitute 85 per cent of municipal budgets. *Intergovernmental Relations* compiles a comprehensive database of all such information. Quarterly spending numbers and accompanying analyses are published, with the expectation that all legislatures will use such information to hold departments and municipalities accountable for their performance.

The division works closely with provincial treasuries to achieve stable provincial finances. Budget and monthly reporting systems are now deeply rooted in the provinces, and reforms continue with the development of uniform sector budgets and strategic plan formats, allowing for more comparability between provinces. Further improvements include the development of performance indicators for each sector and more uniform annual reports. Similar reforms are planned for municipal budgets.

With the large increase in provincial and municipal infrastructure budgets, the main focus over the medium term will be to modernise and improve the system of infrastructure delivery. The *Infrastructure Development Improvement Programme (IDIP)* is being rolled out to key provincial departments involved in infrastructure, such as education, health, roads and public works.

The division is also responsible for administering Programme 7: *Provincial and Local Government Transfers.*

Technical and Management Support

The *Public Private Partnership (PPP)* unit has an increasing portfolio of projects under planning or review. In 2004, a revised and updated *PPP Manual and Standardised PPP Provisions* were issued. Over the next five years, the unit will increase support to municipalities to deliver certain services through partnerships with the private sector. An expanded role for the unit would also allow government to raise the level of investment on infrastructure and improve the quality of services delivered.

The *Technical Assistance* unit supports the work of the *Public Finance* division. The unit supplies government with technical and management expertise – including project management – to facilitate effective delivery of priority programmes. These include improvement of capital project planning, implementation of several initiatives in the social services sector and integrated justice system, and strengthening South Africa's partnerships with other African countries.

A dedicated unit supports government's responsibilities relating to South Africa's hosting of the 2010 FIFA World Cup. The unit will operate until the end of the 2010/2011 financial year.

The *Neighbourhood Development Partnership Grant* unit administers the grant of the same name, The grant supports projects that provide community infrastructure, create platforms for private-sector development and improve the quality of life of residents in targeted areas. A capital grant for qualifying township regeneration projects has also been introduced. Projects aim to accelerate creation of commercial and community facilities, internal and external economic linkages within townships, or between townships and main economic centres, and general environmental improvements in townships. As of 2005, 503 applications had been received from municipalities and awards had been made for 72 projects. The targeted number of projects under management by the end of 2008 is 100.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Programme 2: Public Finance and Budget Management

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

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
Public Finance	Sectoral and departmental policy advice	Timely and relevant analysis and advice	Assessment of policy priorities for medium term and 2009 Budget	Phasing in of targeted sectoral expenditure reviews	
	Expenditure analysis	Monthly and quarterly monitoring of expenditure; analysis of expenditure trends	Introduction of improved in-year expenditure monitoring system	Phasing in of consolidated departmental and agency estimates and expenditure reports	
	Medium-term expenditure recommendations	Inputs to the Medium Term Expenditure Committee on departmental budget submissions	Improved prior consultation with departments, phasing in of measurable objectives and indicators of service delivery, improved long-term expenditure planning		
Budget Office	Annual budget framework and division of revenue	Integrity of national budget framework	MTBPS – October 2008: framework for 2009 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. Improved quality and quantity of measurable objectives and trendable performance indicators by departments and public entities in *Estimates of National Expenditure*		
	Expenditure planning and budget process management	Departmental and agency spending plans and submissions to Ministers' Committee on the Budget	Improved performance information as part of expenditure planning and project evaluation	Auditable performance information for departments and public entities	
	Capital expenditure planning and evaluation	Departmental and agency capital spending and infrastructure plans	Assessment of capital projects through capital budgets committee	Improved capital expenditure planning and budgeting by government departments and infrastructure agencies and enterprises	
	ODA resources aligned to and mobilised for government policies and priorities	SA-led ODA aligned to key budget priorities	Establishing ODA coordinating mechanisms aligned to budget process in at least one cluster	Sharing of ODA best practice through knowledge management systems development	
	Contribution to global ODA debates and policy formation	Quality engagement in global ODA debates and policy formation			

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
Intergovernmental Relations	Provincial budget framework	Integrity of the framework: fiscal sustainability, structure and trends in fiscal indicators	Provincial budget framework finalised by September of budget planning year		
	Preparation of the Division of Revenue Bill and accompanying explanatory memorandum; implementation of the act	Timely publication and quality of the Division of Revenue Bill and explanatory memorandum (Annexure W1)	Available for tabling on Budget Day, with no errors		
	Support provincial and municipal government with: • Financial management reforms • Infrastructure planning • Service delivery	Number of provincial departments and municipalities in which financial management programmes and reforms are being implemented in terms of the Public Finance Management Act (PFMA) and Municipal Finance Management Act (MFMA) (2003)	Implementation programme extended to 126 low-capacity municipalities	Implementation programme extended to all 283 municipalities	
	Training in budget formulation and budget analysis courses	Number of officials trained	300 officials on the budget formulation course 200 officials on budget analysis course	500 officials on both the budget formulation and budget analysis courses	
	Develop budget format regulations, including funding compliance methodology in line with Sections 17 and 18 of the MFMA	User-friendly budget formats Number of municipalities	Complete regulations and guidelines by end of June 2008	Implement budget format regulations in six metros	Implement budget format regulations in 25 high-capacity municipalities

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
	Provincial and local government *Budget and Expenditure Reviews*	Quality and scope of reviews	Publish updated provincial data in May	Publish *Provincial Government Budget and Expenditure Review* by end of May	Publish updated provincial data in May
			Publish *Local Government Budget and Expenditure Review* by end of May	Publish updated local government data in May	Publish *Local Government Budget and Expenditure Review* by end of May
	Publication of provincial and local government expenditure reports in terms of the PFMA (section 32) and MFMA (section 71)	Timely and accurate reports	Month following end of each quarter for provincial reports 45 days after the end of each quarter for municipal reports		
		Coverage of municipal information	120 municipalities	150 municipalities	283 municipalities
Technical and Management Support	IDIP	Provincial infrastructure plans complying with guidelines developed by National Treasury	Technical support given to three sectors (by department) in all nine provinces	Technical support given to three sectors (by department) in all nine provinces	Technical support given to four sectors (by department) in all nine provinces
			Infrastructure plans for targeted departments comply with Division of Revenue Act requirements	Infrastructure plans for targeted departments comply with Division of Revenue Act requirements	Infrastructure plans for targeted departments comply with Division of Revenue Act requirements
	Project management support	Number of projects	40 technical assistance projects Develop technical assistance cost-recovery framework	50 technical assistance projects	60 technical assistance projects

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
	Oversight of national government funding to institutions implementing 2010 FIFA World Cup projects	Compliance with financial management legislation, practices and procedures	Oversee, monitor and report on expenditure of national government funding to institutions implementing 2010 FIFA World Cup projects		Project phased out
	PPP agreements	Increased PPP oversight capacity	Establish capacity for contract management support and implementation	Review of PPP advisory and regulatory functions Publish revised PPP standardised provisions	
		Number of projects reaching financial close	Six projects	Six projects	Eight projects

RESOURCE PLAN
Expenditure estimates

Table 3 Public Finance and Budget Management

Subprogramme R thousand	Adjusted appropriation 2007/08	Medium-term expenditure estimate 2008/09	2009/10	2010/11
Public Finance	34 541	35 118	36 847	38 486
Budget Office	30 163	35 079	36 571	37 997
Intergovernmental Relations	37 412	37 028	39 157	41 353
Technical and Management Support	121 574	88 656	93 295	90 666
Total	**223 690**	**195 881**	**205 870**	**208 502**
Change to 2007 Budget estimate	51 283	–	29 864	(3080)

Economic classification	2007/08	2008/09	2009/10	2010/11
Current payments	**215 804**	**186 698**	**196 586**	**199 724**
Compensation of employees	95 793	107 428	112 797	118 437
Goods and services	120 011	79 270	83789	81 287
of which:				
Communication	595	553	593	595
Computer services	573	1 060	596	629
Consultants, contractors and special services	92 703	52 658	55 944	51 154
Inventory	3 864	6 467	6 818	7 150
Maintenance, repairs and running costs	266	237	260	801
Operating leases	645	658	735	773
Travel and subsistence	10 003	9 345	10 492	11 402
Personnel agency fees	1 717	2 027	2 042	2 009
Financial transactions in assets and liabilities	–	–	–	–
Transfers and subsidies	**6 000**	**7 000**	**7 000**	**7 000**
Departmental agencies and accounts	6 000	7 000	7 000	7 000
Universities and Technikons	–	456	456	–
Public corporations and private enterprises	–	–	–	–
Payments for capital assets	**1 886**	**1 727**	**1 828**	**1 778**
Machinery and equipment	1 853	1 689	1 770	1 749
Software and other intangible assets	33	38	58	29
Total	**223 690**	**195 881**	**205 870**	**208 502**
Details of major transfers and subsidies:				
Departmental agencies and accounts				
Departmental agencies (nonbusiness entities)				
Current	**6 000**	**7 000**	**7 000**	**7 000**
Technical Assistance Unit Trading Entity	–	1 000	1 000	1 000
Project Development Facility Trading Account	6 000	6 000	6 000	6 000

Expenditure trends

Expenditure in this programme has increased substantially, from R98.6 million in 2004/05 to R223.7 million in 2007/08, at an average annual rate of 31.4 per cent. This increase was mainly due to increases in professional and advisory capacity for technical assistance projects for the social security reform project and the 2010 FIFA World Cup, as well as the enhancement of implementation of the IDIP.

Expenditure over the medium-term expenditure framework period will decrease at an average annual rate of 2.3 per cent as the IDIP slows down from 2008/09 and is completed by 2010/11.

Programme 3

ASSET AND LIABILITY MANAGEMENT

Purpose: Manage government's financial assets and liabilities.

Measurable objective: This programme aims to ensure prudent cash and financial management, oversight of state-owned entities (SOEs) and optimal management of the state's domestic and foreign debt.

There are five subprogrammes:

- *Management manages* the office of the head of the division.
- *Asset Management* promotes the optimal allocation and use of financial resources and sound corporate governance in SOEs through financial oversight in accordance with government policy.
- *Liability Management* provides for government's funding needs, manages domestic and foreign debt, and contributes to the development of domestic capital markets.
- *Financial Operations* provides for prudent management of cash in all spheres of government, efficient accounting of debt and investment transactions, supply of reliable systems and provision of quality information.
- *Strategy and Risk Management* develops and maintains a risk management framework.

Policy developments

Government's debt management policies have evolved from concentrating exclusively on financing the borrowing requirement to broader support for macroeconomic objectives. This prudent stance has cushioned South Africa from external shocks in an increasingly unfavourable international environment.

Given recent volatility in global markets and a higher current account deficit, policy is now focused particularly on managing external vulnerability. In keeping with this position, government will continue to assist the Reserve Bank to increase the level of foreign exchange reserves. The National Treasury also works to minimise and mitigate sovereign credit rating risks through monitoring relevant risk indicators.

Several years of robust economic growth, together with prudent fiscal management, have resulted in South Africa enjoying a budget surplus. This lowers government's borrowing requirement, providing greater flexibility in policy choices. Declining borrowing requirements also create space in the domestic capital markets for SOEs to finance a large portion of their infrastructure investment programmes.

Taking into account market considerations, the debt portfolio will be actively managed through buyback and exchange transactions. Market liquidity will be supported through continued issuance of benchmark bonds, and provision of scrip lending and repurchase facilities. Market risk considerations will underpin the formulation of a funding strategy, taking into account interest rates, liquidity, refinancing, inflation and exchange rate risks.

In managing the level and composition of debt, the National Treasury adheres to guidelines that support an optimal mix of fixed and non-fixed rate debt. Counterparty risks emanating primarily from deposit-making activities of government and the provision of guarantees to SOEs are managed to allow for proactive measures to be taken as required.

Prudent cash management will ensure that the right amounts of money are available in the right currencies at the right times – and that returns on surplus cash are optimised. To reduce borrowing costs and enhance credit risk management throughout government, the optimal use of available cash resources will continue to be centrally coordinated.

Integrated treasury management systems enabling the functions of all the activities of this programme are being acquired and will be implemented over the medium term.

The Asset Management unit remains focused on increasing the operational efficiency of SOEs through improved financial oversight. Financial modelling – including setting realistic capital structure targets and assessing funding alternatives – will help to improve future financial performance and sustainability, while the assessment of the treasury operations will support greater adherence to best practices. The report on the review of development finance institutions (DFIs) will allow Cabinet to provide strategic direction to the development finance sector. Asset Management will also participate in the proposed amendment of the Public Finance Management Act (PFMA) with a focus on SOEs.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Programme 3: Asset and Liability Management

Measurable objective: Ensure prudent cash and financial management, oversight of state-owned entities and optimal management of the state's domestic and foreign debt.

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
Asset Management	Review of development finance institutions	DFI review report completed	Submit to Cabinet by end-June 2008	DFIs implement and adhere to report's recommendations	
	Promote appropriate treasury management policies and practices for SOEs	Adherence to guidelines	Full report on SOE adherence	Monitor adherence	
	Promote appropriate treasury management policies and practices for major and municipal treasuries (metros)	Percentage of selected treasuries reviewed against best-practice guidelines	Develop appropriate treasury management guidelines	20% reviewed	50% reviewed
	Formulate SOE capital structure and dividend policies	Analysis to determine appropriate target capital structure for each SOE	30% modelled	60% modelled	100% modelled
	Prudent shareholder management	PFMA and King Code (2002) compliance and monitoring	Quarterly		
		PFMA amendments to reflect prudent shareholder management	Submissions to Cabinet		
		Continuous financial oversight over Schedule 2 and 3B entities	Review all corporate plans and financial statements Participate in major interventions and restructuring		

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
Liability Management	Finance government's gross borrowing requirement	Annual total government borrowing needs fully met	Gross issuance of R15.7 billion	Gross issuance of R29.9 billion	Gross issuance of R22.2 billion
	Sound domestic and foreign debt management policies	Enhanced liquidity	Concentrate issuance in benchmark bonds Scrip lending and repo facilities		
		Active debt management	Buyback and exchange in foreign and domestic debt		
	Reduce debt service cost	Debt service cost as percentage of GDP declines	2.2% of GDP	2.0% of GDP	1.9% of GDP
	Contribute to the development of financial markets	Diversification of funding instruments	Funding government's borrowing requirement in fixed-income, inflation-linked and retail bonds, floating rate notes and treasury bills within risk guidelines		
	Sound investor relations	Retain current investors and attract new ones	Foreign issuance attracts 20% new investors Timely dissemination of reliable information		
Financial Operations	Sound cash forecasts	Government's liquidity requirements met every time	Forecasting R1.8 trillion of cash flows	Forecasting R2.0 trillion of cash flows	Forecasting of R2.2 trillion of cash flows
	Optimise return on investments subject to credit limits	Investment of surplus cash at market-related rates	Quarterly analysis and review of investment rates		
		Intergovernmental cash coordinated	Continuous improvements to intergovernmental cash coordination		
		Saving by national and provincial governments	Saving of up to 2% on borrowing costs compared to borrowing from commercial banks		

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
	Annual financial statements and market reports	Timely and accurate reporting	Compliance with PFMA reporting requirements regarding annual financial statements Timely dissemination of reliable market information		
	Treasury management systems	Reliable automated and integrated systems	Rollout of the new back-office system		Acquisition and integration of middle- and front-office system
			Preparation to implement back-office modules Foreign debt module implemented, February 2009	Domestic capital market module implemented, July 2009 Retail debt module implemented, November 2009 Money market module implemented, March 2010	
			Implementing and actively managing the revised systems integration strategy		
Strategy and Risk Management	Minimise and mitigate risks emanating from government debt portfolio (market risk)	Performance against benchmarks: • Non-fixed vs. fixed debt • Foreign debt vs. domestic debt	Review of strategic benchmarks of 70/30 fixed versus non-fixed rate domestic debt and 20-25% maximum foreign debt exposure as a percentage of total debt Implement and monitor strategic benchmarks Quarterly review of performance against benchmarks		
	Minimise and mitigate counterparty risks emanating from investment of surplus cash	Adherence to surplus cash benchmark investment ratios and total limits per counterparty	Annual review of investment ratios and limits per counterparty Semi-annual reports on adherence to ratios and limits		
	Minimise and mitigate sovereign credit rating risks	Quantitative indicators of sovereign risk	Semi-annual sovereign credit rating reviews		
	Manage contingent liabilities appropriately	Capping total government debt plus contingent liabilities as a percentage of GDP	Review and monitor benchmark of net government debt and contingent liabilities not exceeding 50% of GDP		

RESOURCE PLAN
Expenditure estimates

Table 4: Asset and Liability Management

Subprogramme R thousand	Adjusted appropriation 2007/08	Medium-term expenditure estimate 2008/09	2009/10	2010/11
Management	15 309	18 136	16 132	15 166
Asset Management	33 262	16 602	16 306	14 886
Liability Management	11 185	11 828	12 665	13 497
Financial Operations	10 505	9 036	10 250	10 868
Strategy and Risk Management	5 692	5 757	6 047	6 371
Total	**75 953**	**61 359**	**61 400**	**60 788**
Change to 2007 Budget estimate	18 214	877	(1506)	(536)
Economic classification				
Current payments	**74 271**	**60 646**	**60 648**	**59 999**
Compensation of employees	34 429	37 232	39 092	41 045
Goods and services	39 842	23 414	21 556	18 954
of which:				
Communication	366	395	420	437
Computer services	6 548	4 607	4 908	4 029
Consultants, contractors and special services	25 372	11 357	8 300	5 818
Inventory	573	582	790	840
Maintenance, repairs and running costs	143	162	174	186
Operating leases	438	133	140	147
Travel and subsistence	2 246	1 930	2 267	2 434
Personnel agency fees	417	374	417	498
Audit fees	465	495	537	735
Financial transactions in assets and liabilities	–	–	–	–
Transfers and subsidies	**–**	**–**	**–**	**–**
Provinces and municipalities	–	–	–	–
Payments for capital assets	**1 682**	**713**	**752**	**789**
Machinery and equipment	1 682	713	752	789
Software and other intangible assets	–	–	–	–
Total	**75 953**	**61 359**	**61 400**	**60 788**

Expenditure trends

The 2007/08 adjusted appropriation of R76 million includes special projects such as research for the pebble bed modular reactor (PBMR), the review of DFIs, the reassessment of SOEs' treasury operations and the development of a treasury management system for the programme.

Expenditure is expected to decrease from R76 million in 2007/08 to R60.8 million in 2010/11, an average annual decline of 7.2 per cent. The decrease is due to the completion of the treasury management system, PBMR research and the DFI review.

Programme 4

FINANCIAL MANAGEMENT AND SYSTEMS

Purpose: Manage and regulate government's supply chain processes, implement and maintain standardised financial systems, and coordinate implementation of the Public Finance Management Act (PFMA) and related initiatives to build capacity.

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 implementation of the PFMA.

There are three subprogrammes, which are managed by the Specialist Functions Division:

- *Supply Chain Management* develops policy that regulates supply chain processes in the public sector, monitors policy outcomes, and facilitates and manages transversal term contracts on behalf of government.
- *PFMA Implementation and Coordination* provides for the National Treasury's monitoring role in the implementation of the PFMA and related training initiatives.
- *Financial Systems* provides for the maintenance and enhancement of existing financial management systems, and the replacement of outdated systems with systems that are compliant with both the PFMA and generally recognised accounting practice.

Policy developments

Supply Chain Management – The *Supply Chain Management (SCM)* Office will continue to strive to improve SCM practices and procedures in all spheres of government.

Chief Directorate: *Supply Chain Policy* – This unit's current strategic objective is to coordinate all inputs from the various domains of the integrated financial management system (IFMS) captured as a user requirement statement (URS). Corporate reference data functionality will be established to manage the URS repository. An item identification policy has been established and will be implemented in 2008/09. Continuous enhancements to the URS shall be done in accordance with the release strategy of the IFMS.

The lessons learnt from the application of strategic sourcing on transversal contracts provide a basis for the introduction of sound strategic sourcing principles to all spheres of government. It is envisaged that the concept of strategic sourcing will be rolled out to 30 per cent of all national departments during 2008/09, and to 60 per cent of national departments, provincial departments, constitutional institutions, public entities and high-capacity municipalities during 2009/10. Further rollout will be done to all departments, municipalities and municipal entities by 2010/11.

Chief Directorate: *Norms and Standards* – A new SCM framework that will align preferential procurement with the aims of the Broad-Based Black Economic Empowerment Act (BBBEEA) (2003) and the associated strategy will be promulgated in terms of the PFMA and Municipal Finance Management Act (MFMA) (2003). The *SCM*

Office will issue a revised guide for accounting officers and authorities, as well as practice notes and circulars to assist accounting officers with implementing the new framework. As agreed with the Auditor-General and other stakeholders, the National Treasury will strengthen its capacity to monitor SCM compliance to counter corruption and fraud in the public sector. The National Treasury will adopt a proactive approach that will complement the Auditor-General's oversight and auditing responsibilities. The National Treasury will build this capacity during 2008. Progress reports on SCM compliance monitoring and policy outcomes will be submitted to Cabinet and Parliament's Standing Committee on Public Accounts (SCOPA).

A grievance reporting facility for complaints lodged by bidders or suppliers will also be established during 2008. This facility will investigate complaints at any institutions where the relevant PFMA and MFMA regulations apply. If necessary, the National Treasury will engage the services of forensic auditors or other public-sector investigation agencies. Once the dispute resolution regime has been established, all stakeholders and the public will be informed.

Chief Directorate: *Contract Management* – The National Treasury facilitates the arrangement and management of transversal contracts. Strategic sourcing principles in the invitation of bids for transversal term contracts were applied to 80 per cent of the contracts as at March 2008 to improve value for money. This application will be increased to 85 per cent by 2008/09 and 96 per cent in 2010/11.

The unit will also facilitate the arrangement and management of transversal SCM contracts largely pertaining to the following commodity groups:

- Medical and dental equipment and consumables
- Equipment and services
- Pharmaceuticals
- Perishables, consumables and chemicals
- Textiles, clothing, leather and footwear
- Vehicles, related services and consumables.

PFMA Implementation and Coordination unit – The unit focuses on coordinating initiatives to strengthen finance-related capacity. It provides SCOPA and the Portfolio Committee on Finance with progress reports on implementation of the PFMA, and annual reports to Cabinet on audit outcomes and the tabling of annual reports of national and provincial departments and entities.

Through monitoring mechanisms, which include assessment of the Auditor-General's *General Report on Audit Outcomes*, the National Treasury observes how institutions progress in implementing the act. The National Treasury submits a detailed annual progress report to SCOPA and the Portfolio Committee on Finance. The report submitted to these committees in August 2007 focused primarily on the National Treasury's interventions to help institutions overcome challenges in implementing the PFMA. Since the PFMA is now in its ninth year of implementation, the National Treasury's view is that reports should focus on the improvement of financial management rather than progress with PFMA implementation. Future reports to SCOPA and to the Portfolio Committee on Finance will therefore be based on established criteria in terms of a capability maturity model, as referred to under Programme 5, against which the capabilities of institutions will be assessed to determine the status of their financial management.

During January 2008, a memorandum was presented to Cabinet on the audit outcomes of national and provincial entities for 2006/07. Cabinet resolved that institutions should submit corrective plans to the National Treasury with details of how they would rectify concerns raised in their audit reports. The memorandum to Cabinet on audit outcomes for 2007/08 will not necessarily show significant improvement, since most of the measures to improve audit outcomes will only be undertaken during 2008/09.

The South African Management Development Institute (SAMDI) has developed a financial management training strategy in collaboration with the National Treasury. Although the strategy is being driven by SAMDI, the National Treasury will continue to foster a close working relationship with the institute and provide it with technical support in the form of reviewing training material of short courses to verify alignment with legislative and financial reforms. The National Treasury will help to coordinate SCM training for departments and municipalities – and fully fund such training.

While these short courses are considered necessary to train officials quickly in financial management, they do not provide sufficient long-term training. As part of its mandate, SAMDI will develop a comprehensive learning framework for financial management in collaboration with the National Treasury, prescribing the formal qualifications that public finance practitioners will be required to complete. The framework will also provide for the continuous professional development of staff with existing qualifications to ensure that these personnel are kept up to date. This framework will significantly strengthen public-sector financial management.

During January 2008, the National Treasury distributed the Public Finance Management Bill to institutions within government with an invitation to provide comments. The underlying principles of the PFMA remain unchanged and therefore the ethos of the PFMA is retained in the bill, which essentially allows for managers to manage but at the same time holds them accountable for their actions. The bill will be tabled in Parliament during May 2008, after which it will be necessary to revise the Treasury Regulations issued in terms of the amended act.

Financial Systems – In September 2005 Cabinet approved the phased development of the IFMS to replace the old, fragmented financial management systems.

Following the completion of a master systems plan during phase I, current work focuses on the completion of the primary phase II deliverables:

- Develop the system architecture
- Prepare the State Information Technology Agency (SITA) for its role as the primary systems integrator
- Reprioritise phase III modules (procurement, asset management and human resource management).

Over the period ahead the strategic focus will be on phase III deliverables: the development and deployment of the various IFMS modules that will ultimately replace existing systems. As the phased implementation of IFMS continues, the financial and human resource management systems (BAS, PERSAL, LOGIS and VULINDLELA) now in use will be maintained or enhanced as required to support legislative and operational requirements.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS
Programme 4: Financial Management and Systems

Measurable objective: To regulate and oversee public-sector supply chain management and standardise the financial systems of national and provincial government, while coordinating implementation of the PFMA.

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
Supply Chain Management Policy	Overall URS and updated SCM URS	Creating URS in an electronic format	April 2008	Maintain and enhance URS	
	Compile a policy for item identification	Implementation of item identification framework	May 2008 At lead implementation sites	Roll out to rest of departments	
	Establish corporate reference data functionality	Establish URS repository	May 2008	Ongoing enhancements and maintenance	
	Introduction of strategic sourcing principles to all spheres of government	Roll out strategic sourcing principles to the public sector and assist institutions with implementation	30% of all national departments	60% of all national departments, provincial departments, constitutional institutions, public entities and high-capacity municipalities	100% of all departments, medium- and low-capacity municipalities and municipal entities
	Align preferential procurement with the aims of the BBBEE Act and its related strategy	Extent of alignment	Issue SCM framework to align Preferential Procurement Policy Framework Act with BBBEEA by August 2008		
	Rollout of revised SCM framework	Successful implementation throughout government	August 2008 Issue at least four practice notes for implementing the revised SCM framework	Ongoing enhancement	

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
Norms and Standards	SCM compliance monitoring on a proactive basis	Extent of compliance to SCM regulations by organs of state	Reports to Cabinet and SCOPA on SCM compliance monitoring – August 2008	Reports to Cabinet and SCOPA on SCM compliance monitoring – August 2009	Reports to Cabinet and SCOPA on SCM compliance monitoring – August 2010
	Establishment of a grievance mechanism to deal with disputes and complaints	Effectiveness of grievance mechanism	Establishment of grievance mechanism by August 2008	Ongoing investigation of SCM-related grievances	
	Apply strategic sourcing to enhance value for money applicable to all transversal term contracts	Number of contracts on which strategic sourcing is applied	Apply strategic sourcing strategies on 85% of all transversal term contracts	Apply strategic sourcing strategies on 90% of all transversal term contracts	Apply strategic sourcing strategies on 96% of all transversal term contracts
	Facilitate and manage national transversal term contracts	Number of transversal term contracts facilitated per year	35 transversal term contracts	20 transversal term contracts	37 transversal term contracts
PFMA Implementation and Coordination	Coordinate implementation of PFMA	Report to SCOPA and to Portfolio Committee on Finance on progress made with the improvement of financial management in terms of the capability maturity model[1]	August 2008	August 2009	August 2010
		Report to Cabinet on the audit outcomes of national and provincial entities[2]	November 2008	November 2009	November 2010

[1] This report will be compiled in collaboration with the Office of the Accountant-General.

[2] This Cabinet memorandum will be compiled in collaboration with the Office of the Accountant-General.

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
	Financial management training initiatives	Number of training courses funded/subsidised and the number of individuals to be trained to assist with implementation of financial management reforms	300 courses (6 000 trainees)	300 courses (6 000 trainees)	300 courses (6 000 trainees)
	Facilitate the development and implementation of a learning framework for financial management	Success of learning framework	Development to be completed by March 2009	Ongoing	
	Review of and amendments to the PFMA	Submission of Public Finance Management Bill to Parliament	May 2008		
		Revision of Treasury Regulations issued in terms of the PFMA	December 2008		
Financial Systems	Roll out the IFMS	Implement lead solutions	Procurement commercial, off-the-shelf (COTS): Implement at National Treasury and one further national department – lead site HR COTS: Department of Public Service and Administration and Free State Department of Education – lead sites Asset Management: National Treasury and one further national department – lead sites	Roll out to national departments	Roll out to provinces

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
		Develop payroll/financial management function		Integrate payroll/financial management function	
	Create a user support capacity at SITA	Success of user support facility	Assessment of user support capacity at SITA	Set up an IFMS training unit and call centre	Develop an IFMS partner certification for training and implementation capacity
	Develop an approach for data migration	Successful data migration	Do data migration for lead sites	Do data migration for national departments	Do data migration for provinces
	Maintain and support current financial management systems	Percentage availability of systems within working hours	98% availability of systems during working hours		
	Retire current systems	Data migration for lead sites	Data migration and archives		

RESOURCE PLAN
Expenditure estimates

Table 5: Financial Management and Systems

Subprogramme	Adjusted			
	appropriation	Medium-term expenditure estimate		
R thousand	2007/08	2008/09	2009/10	2010/11
Management	1 786	1 566	1 638	1 709
Deputy Director-General Specialist Functions	*1 786*	*1 566*	*1 638*	*1 709*
Supply Chain Management	34 920	27 499	28 877	30 048
Chief Directorate Supply Chain Policy	*17 320*	*6 811*	*7 118*	*7 388*
Chief Directorate Contract Management	*10 529*	*13 552*	*14 166*	*14 779*
Chief Directorate Norms and Standards	*7 071*	*7 136*	*7 593*	*7 881*
PFMA Implementation and Co-ordination	11 882	16 770	16 921	17 090
Chief Directorate PFMA Implementation	*11 882*	*16 770*	*16 921*	*17 090*
Financial Systems	320 122	511 789	654 723	729 068
Operational Costs	*17 248*	*17 274*	*18 153*	*19 139*
Basic accounting system (BAS)	*66 211*	*66 611*	*71 847*	*79 465*
PERSAL	*48 716*	*48 372*	*50 474*	*53 461*
Logis	*51 821*	*47 959*	*54 097*	*53 289*
Vulindlela	*26 439*	*20 967*	*22 637*	*24 325*
Financial management system (FMS)	–	–	–	–
Integrated financial management system (IFMS)	*109 687*	*310 606*	*437 515*	*499 389*
Total	**368 710**	**557 624**	**702 159**	**777 915**
Change to 2007 Budget estimate	(353 527)	(267 180)	(126 040)	(5731)

Economic classification				
Current payments	**365 222**	**554 018**	**698 477**	**774 072**
Compensation of employees	36 438	41 034	43 109	45 264
Goods and services	328 784	512 984	655 368	728 808
of which:				
Communication	*985*	*1 234*	*1 381*	*1 495*
Computer services	*301 875*	*483 001*	*623 904*	*696 281*
Consultants, contractors and special services	*795*	*450*	*540*	*530*
Inventory	*1 395*	*1 517*	*1 708*	*1 764*
Maintenance, repairs and running costs	*318*	*283*	*320*	*357*
Operating leases	*673*	*739*	*804*	*866*
Travel and subsistence	*3 771*	*4 345*	*4 758*	*5 091*
Personnel agency fees	*401*	*400*	*400*	*400*
Audit fees	*1 783*	*937*	*1 052*	*1 160*
Financial transactions in assets and liabilities	–	–	–	–
Transfers and subsidies	**–**	**–**	**–**	**–**
Provinces and municipalities	–	–	–	–
Payments for capital assets	**3 488**	**3 606**	**3 682**	**3 843**
Machinery and equipment	2 892	3 311	3 377	3 520
Software and other intangible assets	596	295	305	323
Total	**368 710**	**557 624**	**702 159**	**777 915**

Expenditure trends

Expenditure increased between 2004/05 and 2007/08 (though unevenly) at an annual average rate of 17.7 per cent, from R226.4 million to R368.7 million. This was due mainly to continuous maintenance work on legacy systems such as BAS, LOGIS and PERSAL. The decrease in spending from R239.2 million in 2005/06 to R196.4 million in 2006/07 was mainly as a result of cost-containment measures for the legacy systems.

Expenditure over the medium-term expenditure framework period is expected to increase significantly, from R368.7 million in 2007/08 to R777.9 million in 2010/11, at an average annual rate of 28.3 per cent. This is due to the implementation of the IFMS and the full rollout of the training programmes with SAMDI.

Programme 5

FINANCIAL ACCOUNTING AND REPORTING

Purpose: Promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities of departments, public entities, constitutional institutions and local government.

Measurable objective: This programme aims to facilitate accountability, governance and oversight by promoting transparent, economic, efficient and effective management in respect of revenue, expenditure, assets and liabilities in the public sector.

The programme consists of six subprogrammes:

- *Financial Reporting for National Accounts* is responsible for accounting for the National Revenue Fund and the Reconstruction and Development Programme (RDP) Fund, banking services for national government and preparing consolidated financial statements.
- *Financial Management Improvement* is responsible for enhancing financial management and providing training, developing and implementing accounting policies, and internal audit services.
- *Investment of Public Monies* accommodates augmentation of the Public Investment Corporation's bank account.
- *Service Charges (Commercial Banks)* provides for bank service charges for all departments' deposit accounts.

Policy developments

The *Financial Reporting on National Accounts* unit intends to continue to improve the financial reporting formats for national and provincial government. This will form part of the migration plan to comply with generally recognised accounting practice (GRAP) in terms of Section 216 of the Constitution, and is in line with the requirements of improving accountability and transparency in the public sector. Alignment of the annual financial statements (AFS) formats with the prescribed GRAP standards is designed to accommodate the transition from the cash basis to the accrual basis of accounting. The team will continue to seek new ways to improve the in-year monitoring system to enhance the information provided and to facilitate timely monthly, quarterly and annual reporting. It will also provide continued support for the Standard Chart of Accounts for national departments in conjunction with the *Budget Office.*

The format enhancements require extensive consultation with and training of national and provincial departments and public entities. As new standards and policies are developed, the AFS will be revised annually to reflect the new categories, resulting in improved disclosure and recognition.

Significant strides have been made in the development of the GRAP standards. The unit will continue to ensure effective rollout of the standards through training initiatives on the GRAP guidelines being finalised by the *Financial Management Improvement* subprogramme. There will also be increased focus on providing support to targeted clients based on the Auditor-General's reports and assessment results in terms of the capability maturity model. The nature of support provided to provincial and local government necessitates continued interaction and coordination of activities with the *Intergovernmental Fiscal Relations* division. A formal structural arrangement intended to realise this coordination is provided for in the new organisational structure in the Office of the Accountant-General referred to below.

The unit will continue to monitor progress, and provide guidance and support on all accounting-related concerns in the public sector. Over the next year, the unit will focus on assisting the public sector to comply with the *Asset Management Guide.*

Financial Management Improvement will also continue to upgrade internal auditing and risk management in government to improve effective and efficient service delivery. The unit will focus on the implementation and continuous update of the internal audit and risk management frameworks, and the provision of support and guidance to internal auditors, risk managers and audit committees across all spheres of government. The support provided should lead to the development and maintenance of quality internal audit and risk management skills and capacity.

There are a number of challenges to effective financial management, internal audit and risk management activities. As a result, the Office of the Accountant-General is reviewing its organisational structure and capacity to align its services with the legislative mandate. To this end a *Special Audit Services* unit and a *Governance, Monitoring and Compliance* unit will be set up. The *Governance, Monitoring and Compliance* unit will provide a single point of contact for external stakeholders and ensure that monitoring of compliance with the prescripts is streamlined. It will also ensure coordination of the enforcement responsibility of the National Treasury as well as PFMA compliance reports to SCOPA currently prepared by *Specialist Functions*. These sections will ensure compliance and provide investigative capability to identify weaknesses in the internal control environment. The results of these activities will be critical in ensuring that remedial steps are taken.

The unit is also finalising the capability maturity model to be used in the assessment of the capabilities of all clients to ensure the development of customised support intervention strategies. The increased focus on supporting clients requires that the programme develop internal capacity. It is for this reason that a *Capacity-building* section has been established. This section has initiated a training programme for chartered accountants in partnership with the South African Institute of Chartered Accountants called Training Outside Public Practice (TOPP). The National Treasury's participation in the Thuthuka Bursary Fund will greatly enhance the success of the TOPP.

As the new standards of GRAP, internal audit and ISO (risk management) standards are developed, the subprogramme will develop appropriate guidelines to support implementation.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS
Programme 5: Financial Accounting and Reporting

Measurable objective: To facilitate accountability, governance and oversight by promoting transparent, economic, efficient and effective management in respect of revenue, expenditure, assets and liabilities in the public sector.

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
Financial Reporting for National Accounts	Monthly statements of actual revenue and expenditure for the National Revenue Fund	Timely publishing of accurate reports	Last working day of each month		
	Annual financial reporting framework in line with financial management improvement programme	Compliance to prescripts and addressing of transversal audit issues	By 31 March 2009 for 2009/10 AFS template and preparation guide issued by 31 March 2009 for 2009/10	31 March 2010 for 2010/11 AFS template and preparation guide issued by 31 March 2010 for 2010/11	31 March 2011 for 2011/12 AFS template and preparation guide issued by 31 March 2011 for 2011/12
	Specimen formats for AFS	Agreed formats for annual consolidation	30 April 2008 for 2007/08	30 September 2008 for 2008/09	30 June 2009 for 2009/10
	Conduct implementation sessions through workshops	Number of participants in the workshop	30 participants	30 participants	30 participants
	Consolidated AFS for national government	Tabling of audited consolidated annual financial statements in Parliament	31 October 2008	31 October 2009	31 October 2010
	AFS for the RDP Fund	Audited and published annual financial statements for the RDP Fund	31 October 2008	31 October 2009	31 October 2010
	Support implementation of reporting frameworks and related topics	Departments – number of trainees Local government – number of trainees	300 officials for national and provincial departments 300 officials for local government	300 officials for national and provincial departments 300 officials for local government	300 officials for national and provincial departments 300 officials for local government

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
	Support implementation of new GRAP standards and the guidelines for public entities	Training workshops: number of participants	370 participants	370 participants	370 participants
	Support implementation of new GRAP standards, the guidelines for local government and the generic procedure manual	Training workshops: number of participants	550 participants	550 participants	550 participants
Financial Management Improvement	Cash to accrual implementation plan	Alignment with the Accounting Standards Board work plan and the IFMS rollout plan	Comprehensive implementation plan drawn up to be ready for the IFMS by 31 March 2009		
	Develop guidelines for all new GRAP standards and a generic procedure manual for municipalities	New GRAP standards guideline document for public entities Guideline document and a procedure manual for municipalities	30 June 2008 for public entities 30 September 2008 for municipalities		
	Accounting policies and practices in support of framework for transition from cash to accrual basis of accounting	Accounting policies and practices in line with approved accounting standards and adhere to best practice	100% alignment to approved standards effective dates		
	Develop internal audit guidelines on the frameworks and the standards	Guideline documents on the frameworks and the standards	31 March 2009 – online	Printed booklets by 30 June 2009	
	Develop risk management guidelines on the frameworks and the standards	Guideline documents on the frameworks and the standards	31 March 2009 – online	Printed booklets by 30 June 2009	
	Implementation of the revised internal audit framework for national, provincial departments and local government	Training workshops: number of participants	600 participants	600 participants	600 participants
	Implementation of the revised risk management framework for national, provincial departments and local government	Training workshops: number of participants	600 participants	600 participants	600 participants

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
	Enhance service delivery capability of internal auditors through training programmes and workshops	Training workshops on performance auditing: number of participants	600 participants	600 participants	600 participants
	Enhance service delivery capability of risk managers through training programmes and workshops	Risk management training: number of trainees	200 trainees	300 trainees	300 trainees
	Risk management system implementation	Number of new sites	50 sites	50 sites	50 sites
	Information sharing sessions/conferences • Risk management • Financial management • Internal audit	Number of delegates	500 delegates	500 delegates	500 delegates
	Conduct internal quality assessment reviews (QARs) in municipalities	Number of municipalities	Report on QARs for 20 municipalities having internal audit functions, submitted to relevant councils by 31 March 2009	Report on QARs for 20 municipalities having internal audit functions, submitted to relevant councils by 31 March 2010	Report on QARs for 20 municipalities having internal audit functions, submitted to relevant councils by 31 March 2011
	Facilitate QARs in local government and qualifying departments	Number of departments and municipalities	15 departments 20 municipalities	15 departments 20 municipalities	15 departments 20 municipalities
	Develop intervention strategies to improve the risk management capability of clients based on the results of the survey conducted in 2007/08	Risk management intervention strategy document Rollout/implementation workshop	Strategy document finalised by September 2008 Workshops October 2008 to March 2009 for all departments	Continue rollout	
	Evaluate the impact of interventions	Risk management intervention strategy evaluation report			31 March 2011

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
	Participation on audit committees and risk management committees of national departments	Percentage participation on audit committees of national departments	100% participation on audit committees of national departments, and in education and health departments in provinces and the treasury-delegated municipalities		
	Develop and implement audit committee guidelines	Audit committee guideline document	30 June 2008		
		Workshops on guidelines: number of participants	200 participants	300 participants	400 participants
	Finalise and implement the capability maturity model	Capability maturity model	30 June 2008		
		Implementation workshops through existing forums			
		Client capability maturity assessment report in terms of financial management, internal audit and risk management of clients	31 August 2008	31 March 2009 for provinces	31 March 2010 for local government
	TOPP trainee progress evaluation	Number of trainees	10 trainees	10 new trainees	10 new trainees
	Continued development programme for the Office of the Accountant-General and one for clients	Quarterly assessment reports	Quarterly	Quarterly	Quarterly
		General continued professional development programme for clients	30 June 2008; fully implemented by 31 March 2009		
	Identify weaknesses in systems of financial management and internal controls in pre-selected clients	Progress and/or final report on findings in each client engagement	31 March 2009	31 March 2010	31 March 2011
		Recommendations on corrective measures			
	Participate in the development of local and international standards of accounting, auditing and risk management	Meetings attended	10 international meetings	10 international meetings	10 international meetings
		Comment letters submitted	10 comment letters	10 comment letters	10 comment letters
	Support to East and Southern African Association of Accountants-General	Number of weeks dedicated to support	Three weeks	Three weeks	Three weeks

RESOURCE PLAN
Expenditure estimates

Table 6: Financial Accounting and Reporting

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2007/08	2008/09	2009/10	2010/11
Financial Reporting for National Accounts	53 034	58 381	61 061	64 199
Financial Management Improvement	17 142	13 991	14 605	15 219
Service Charges (Commercial Banks)	120	–	–	–
Audit Statutory Bodies	23 800	16 545	17 372	18 414
Total	**94 096**	**88 917**	**93 038**	**97 832**
Change to 2007 Budget estimate	12 020	1	(524)	(1344)

Economic classification				
Current payments	**44 629**	**45 489**	**47 460**	**49 519**
Compensation of employees	23 634	25 129	26 383	27 699
Goods and services	20 995	20 360	21 077	21 820
of which:				
Communication	*326*	*276*	*292*	*309*
Computer services	*1 692*	*411*	*437*	*465*
Consultants, contractors and special services	*3 506*	*4 762*	*5 080*	*5 114*
Inventory	*1 252*	*1 393*	*1 470*	*1 517*
Maintenance, repairs and running costs	*660*	*559*	*559*	*559*
Operating leases	*66*	*113*	*115*	*117*
Travel and subsistence	*5 552*	*3 401*	*3 340*	*3 644*
Personnel agency fees	*587*	*680*	*690*	*697*
Financial transactions in assets and liabilities	–	–	–	–
Transfers and subsidies	**47 140**	**42 532**	**44 825**	**47 514**
Provinces and municipalities	–	–	–	–
Departmental agencies and accounts	47 140	42 532	44 825	47 514
Households	–	–	–	–
Payments for capital assets	**2 327**	**896**	**753**	**799**
Machinery and equipment	2 309	896	753	799
Software and other intangible assets	18	–	–	–
Total	**94 096**	**88 917**	**93 038**	**97 832**

Details of major transfers and subsidies:				
Departmental agencies and accounts				
Departmental agencies (nonbusiness entities)				
Current	**40 897**	**36 805**	**38 847**	**41 177**
Audit (Auditor-General)	23 802	16 547	17 374	18 416
Independent Regulatory Board for Auditors	17 095	20 258	21 473	22 761
Capital	**6 243**	**5 727**	**5 978**	**6 337**
Accounting Standards Board	6 243	5 727	5 978	6 337

Expenditure trends

Expenditure increased from R31.9 million in 2004/05 to R94.1 million in 2007/08, at an average annual rate of 43.4 per cent, due mainly to the increase in establishment, audit fees, annual conferences, the hosting of the International Corporate Governance Network and the introduction of a transfer payment to the Independent Regulatory Board of Auditors (IRBA). Expenditure is expected to stabilise, with increases at an average annual rate of 1.3 per cent over the medium-term expenditure framework period, from R94.1 million in 2007/08 to R97.8 million in 2010/11. These increases are due to higher expenditure on IRBA, the TOPP programme and the implementation of the revised frameworks and GRAP standards.

Programme 6

ECONOMIC POLICY AND INTERNATIONAL RELATIONS

Purpose: Provide specialist policy analysis and advisory services in the areas of macroeconomics, microeconomics, taxation, the financial sector, regulatory reform, regional integration, international development policy and financial relations.

Measurable objective: – This programme provides policy advice to promote growth, employment, macroeconomic stability and regional integration. The measurable objectives are as follows:

- Concept papers and proposals on economic policy, including growth and job creation, macroeconomic stability, microeconomic analysis, taxation, the financial sector and retirement reform.
- Macroeconomic and revenue forecasts for the annual budget and *Medium Term Budget Policy Statement (MTBPS)*, and tax proposals for the budget.
- Tax and financial sector legislation.
- A regulatory impact assessment framework by 2008/09.
- Improved South African participation in international economic institutions such as the International Monetary Fund (IMF), World Bank, Group of 20 (G20) and the African Development Bank (AfDB), including quota reform, and hosting of the World Bank's Annual Bank Conference on Development Economics in June 2008.
- Promotion of African and regional integration by developing proposals, engaging with the Southern African Development Community (SADC) and reviewing the Southern African Customs Union (SACU) revenue-sharing formula.

There are five subprogrammes:

- *Management and Research* funds the department's economic research programme, including promoting the research capacity of local academic researchers in areas such as economic growth, macroeconomic stability, taxation, financial sector reform (including retirement reform), regional integration and poverty alleviation.
- *Financial Sector Policy* provides advice on the financial sector, including the regulatory framework and legislation. Key strategic focus areas include retirement reform, financial stability and financial sector access and transformation.
- *Tax Policy* provides advice on the formulation of tax policy for the annual budget. It is also responsible for drafting tax legislation, revenue analysis and forecasting.
- *International Economics* focuses on improving South Africa's participation in international economic institutions such as the IMF, World Bank and G20, including policy initiatives related to the reform of the Bretton Woods Institutions, climate change, attainment of Millennium Development Goals (MDGs) and poverty alleviation. It also facilitates the deepening of South Africa's role in regional integration (SADC and SACU) and works through key economic institutions

including the AfDB, United Nations Economic Commission for Africa (UNECA) and the New Partnership for Africa's Development (NEPAD).

- *Economic Policy* provides macroeconomic, microeconomic, forecasting and regulatory technical and policy analysis for the annual budget and other government processes, as well as policy review.

Policy developments

The *Economic Policy and International Financial Relations* programme is implemented through two divisions: the *Economic Policy* division and the *Tax, Financial Sector and International Relations* division. A separation of International Financial Relations into a third division is under consideration.

The two divisions prepare annual macroeconomic and revenue forecasts for the Budget and the *MTBPS*. The *Tax Policy* unit also prepares two rounds of annual legislation each year, including the Tax Laws Amendment Bill and the Revenue Laws Amendment Bill. Further legislation passed during 2007/08 includes the Cooperatives Bank Act, the Banks Amendment Act (on Basle II reforms), as well as the tabling for discussion of the Minerals Policy and Resources Royalty Bill.

Both divisions promote economic research relevant to the South African economy. In particular, this programme funded an international and local panel in support of government's Accelerated and Shared Growth Initiative for South Africa (AsgiSA). This research has produced 19 papers on growth that will be published shortly for public debate and comment. The two divisions also support economic research at South African universities through the Economic Research on Southern Africa initiative.

The *Economic Policy* division plays a central role in formulating and coordinating appropriate growth-enhancing policies that strengthen employment creation. Over the next five years, work will focus on modelling and analysis that assesses the impact of interest and exchange rate variability, as well as that of microeconomic reform, on domestic growth prospects. The key responsibility of the *Economic Policy* division is to provide policy advice on macroeconomic developments, international economic developments and microeconomic issues. The division does this through policy analysis, scenario testing and the production of macroeconomic forecasts, in particular on growth, the external account and inflation. The forecasts inform economic policy, the fiscal framework, tax forecasts and debt management strategy. The division sets out the macroeconomic perspective for the economy over the medium-term expenditure framework (MTEF), articulated in the *MTBPS* and *Budget Review*.

The National Treasury sets the broad policy framework for monetary policy, while the inflation-targeting framework is implemented by the Reserve Bank. A number of technical committees exist between the National Treasury and the Reserve Bank to improve policy coordination in areas of overall fiscal and monetary policy, inflation targeting, reserve management, financial-sector regulation and cash management. The division chairs or is actively involved in several of these committees.

Economic Policy continues to be involved extensively in the management of research projects involving economic growth, such as the above-mentioned panel on growth, and those involving external organisations, such as the Commission for Growth and Development. Policy analysis and recommendations are prepared for discussions of these and other bodies, including the G20.

In 2005 the National Treasury, in collaboration with the Presidency, conducted an investigation into the introduction of regulatory impact analysis (RIA). In January 2007 Cabinet approved the introduction of RIA through a two-year pilot phase. RIA will assist government and regulators in assessing the likely direct and indirect costs and benefits of proposed regulations to various stakeholders. This will contribute to lowering the costs of doing business, increase certainty of the policy environment for investors and promote efficient regulation. The work of the RIA pilot is being conducted by an implementation committee consisting of the Presidency and the National Treasury. Within this structure, *Economic Policy* evaluates the economic impact of proposed regulation, which will constitute part of the RIA that will accompany regulations that are presented to Cabinet.

The *Tax Policy* unit is responsible for advising the Minister of Finance on tax policy issues that arise in all three spheres of government. The unit aims to design tax instruments that can fulfil their revenue-raising function, achieve economic and allocative objectives, and strengthen redistributive and social policy functions at the same time. In designing tax policy, there is close cooperation between the South African Revenue Service and the National Treasury, together with consultation with business, labour and the general tax-paying public. The unit is also involved in regional tax harmonisation initiatives within the SADC.

Tax policy proposals announced in the 2008 Budget include a reduction in the headline corporate income tax rate to 28 per cent, replacing the secondary tax on companies with a withholding tax on dividends at the shareholder level, the introduction of a simplified tax regime for very small businesses, measures to facilitate equity investments in innovative businesses and junior exploration mining companies, fiscal drag relief for individuals and the introduction of an electricity levy. The *Tax Policy* unit will continue to play a role in determining the tax treatment of retirement savings, which need to be synchronised with reforms of the regulatory framework pertaining to the pension fund industry, and the proposed introduction of compulsory social security contributions.

The Financial Sector Policy unit is responsible for the design and legislative framework of the financial sector as a whole, and works closely with regulatory agencies such as the Financial Services Board, Banking Supervision and Exchange Control (now to be called Financial Surveillance) departments of the Reserve Bank, and the Financial Intelligence Centre. The unit is responsible for liaison between the National Treasury and the Reserve Bank on matters related to bank supervision, financial stability and the national payments system. Important projects include: the issuance of a retirement fund reform discussion document with a view to ultimately rewriting the Pension Funds Act (1956); the creation of the Development Agency for Cooperative Banks; involvement in the Auditing Profession Bill; and research into the establishment of a deposit insurance scheme for South Africa. The unit also represents the National Treasury in the Financial Sector Charter Council, and on various advisory boards and committees within South Africa, in the SADC and internationally.

The *International Economics* unit comprises two chief directorates, International Finance and *Development and Africa Economic Policy*. South Africa aims to promote reform of the IMF and the World Bank. Policy is focused on exploring ways to reduce global financial market volatility and promote balanced global growth and development, including through government's participation in the G20, which South Africa chaired in 2008. South Africa also plays an important role in encouraging these institutions to seek innovative solutions for poverty alleviation, and to promote regional and African growth and development with strategic alliances on the continent and with other emerging economies. The unit has also played a leading role in increasing donor aid to the International Development Association and African Development Fund, as demonstrated during the negotiations for these funds in 2007/08.

The *Africa Economic Policy* unit focuses on African development, including the role of the AfDB, the African Union and UNECA. Its major focus is regional integration through its involvement in the SADC, SACU and Common Monetary Union. A major priority is the reform of the SACU revenue-sharing formula. The chief directorate is also involved in initiatives to strengthen capacity on the continent through the Collaborative African Budget Reform Initiative (CABRI), which seeks to improve the appropriateness, quality and sustainability of budget reform programmes throughout Africa.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS
Programme 6: Economic Policy and International Relations

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

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010//11 Target Milestone
Management and Research	Publication and promotion of economic research relevant to South Africa	Publication of economic papers	Publication of research or discussion papers on growth, employment creation, retirement reform, and various tax and financial sector policy issues		
Financial Sector Policy	Reforming system of retirement funding	Publishing papers, gazettes or legislation on retirement reforms	Two research and concept papers to support retirement reform Tabling of legislation on pensions and insurance industry	Prepare and research implementation of retirement reform proposals	Prepare implementation of retirement reform proposals
	Financial stability	Enforcement of regulations or drafting of legislation promoting financial stability	Support regulatory agencies to monitor stability of financial sector		
			Report on improving financial regulatory system	Implementing proposals from report on financial regulatory system	
			Legislation on pension and insurance sectors	Legislation on financial sector reforms	
	Financial sector transformation and access	Establishment of the Development Agency for Cooperative Banks	Appointment of the board and the managing director for the Development Agency for Cooperative Banks Publication of discussion paper on micro-insurance industry	Establishment of deposit insurance for cooperative banks Submit the Amendments to the Banks Act to effect the prudential framework and licensing for dedicated banks	Establishment of the deposit insurance scheme

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010//11 Target Milestone
Tax Policy	Tax proposals and revenue forecasts for the annual budget	Chapter 4 of the annual *Budget Review*	Publication on Budget Day 2009	Publication on Budget Day 2010	Publication on Budget Day 2011
	Tax legislation and amendments	Taxation and Revenue Laws Amendment Bill	Tabling by April 2008	Tabling by April 2009	Tabling by April 2010
		Minerals and Petroleum Resources Royalty Bill	Tabling by June 2008	N/A	N/A
		Revenue Laws Amendment Bill	Tabling by September 2008	Tabling by September 2009	Tabling by September 2010
International Economics	Promotion of Southern African economic integration	Agreement and implementation of a road map for integration and review of SACU revenue-sharing formula	Participate in process to develop a road map for regional integration in SADC	Implement any agreed proposals on regional integration in SADC	
			Develop proposals and engage within SACU to review revenue-sharing formula during 2008	Finalise agreement on a new revenue-sharing formula in SACU	Implement any new agreement on a revenue-sharing formula in SACU
	Promoting development of African countries and attainment of MDGs	Playing a catalyst role with donor countries and in capacity-building initiatives	Participate in AfDB, UNECA and CABRI		
	Improving South Africa's participation in international economic institutions like the IMF, World Bank and G20	Playing a catalyst role in the reform of Bretton Woods institutions, climate change, attainment of MDGs and elimination of poverty	Contribute to discussions and agenda-setting in key multilateral institutions		

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010//11 Target Milestone
Economic Policy	Economic policy analysis, research, assessment and advice covering trade, labour markets, industrial sectors, network infrastructure, development finance institutions and economic growth	High-quality policy memos and economic assessment of policy proposals with appropriate turnaround times	Institutional development of divisional capacity and quality benchmarking	Quality benchmarking and coverage of issues improved to 100%	Microeconomic assessment capacity functioning optimally
	Macroeconomic forecasts	Quarterly economic forecasts and high-quality policy and scenario modelling	Staffing and capacity development for modelling and forecasting	Comprehensive in-house macroeconomic analysis and forecasting	
	Macroeconomic perspective and analytics	High-quality Chapter 2 of *MTBPS* and *Budget Review*	Improved policy focus in *MTBPS*	Publication of *Budget Review* and *MTBPS*	
	Speeches and briefing notes	Speeches published on intranet	Wider dispersion of speech-writing skills in staff via capacity building		
	Meetings with investors on the economic outlook	Impact on investor analysis	Made-to-measure analytics prepared for meetings		
	Regulatory impact assessments	Number and quality of assessments	Work processes developed by December 2008	Institutional structure for RIA established	Structure and capacity for RIA fully functional

RESOURCE PLAN
Expenditure estimates

Table 7: Economic Policy and International Financial Relations

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2007/08	2008/09	2009/10	2010/11
Management and Research	13 558	15 586	13 991	14 626
Financial Sector Policy	17 130	19 864	20 977	22 151
Tax Policy	12 874	13 262	14 017	14 882
International Economics	14 786	12 908	13 467	14 009
Economic Policy	58 810	20 928	17 385	17 905
Total	**117 158**	**82 548**	**79 837**	**83 573**
Change to 2007 Budget estimate	30 495	3035	(2889)	(755)

Economic classification				
Current payments	**111 459**	**76 811**	**74 106**	**77 759**
Compensation of employees	39 394	41 001	41 552	43 628
Goods and services	72 065	35 810	32 554	34 131
of which:				
Communication	*416*	*344*	*372*	*417*
Computer services	*495*	*62*	*68*	*73*
Consultants, contractors and special services	*17 597*	*18 759*	*16 002*	*16 877*
Inventory	*2 508*	*1 929*	*2 006*	*2 061*
Maintenance, repairs and running costs	*65*	*97*	*101*	*106*
Operating leases	*221*	*153*	*170*	*182*
Travel and subsistence	*31 742*	*9 155*	*8 414*	*8 742*
Personnel agency fees	*428*	*595*	*625*	*653*
Other	*18 593*	*4 716*	*4 796*	*5 020*
Financial transactions in assets and liabilities	–	–	–	–
Transfers and subsidies	**5 000**	**5 000**	**5 000**	**5 000**
Provinces and municipalities	–	–	–	–
Universities and technikons	5 000	5 000	5 000	5 000
Public corporations and private enterprises	–	–	–	–
Payments for capital assets	**699**	**737**	**731**	**814**
Machinery and equipment	699	691	709	790
Software and other intangible assets	–	46	22	24
Total	**117 158**	**82 548**	**79 837**	**83 573**

Details of major transfers and subsidies:				
Universities and technikons				
Current	**5 000**	**5 000**	**5 000**	**5 000**
University of Cape Town: Economic Research Southern Africa	5 000	5 000	5 000	5 000

Expenditure trends

Expenditure increased from R37.1 million in 2004/05 to R117.2 million in 2007/08, at an average annual rate of 46.7 per cent, mainly due to once-off funding for chairing the G20 meetings, an increase in research funding, including research for RIA and microeconomic analysis, research in support of AsgiSA and the implications of policy advice on legislation including tax, pensions and banking regulation.

Expenditure over the MTEF period is expected to decrease significantly, from R117.2 million in 2007/08 to R83.6 million in 2010/11, at an average annual rate of 10.6 per cent due to once-off costs of chairing the G20 and hosting the Annual Bank Conference on Development Economics in 2007/08. Funds over the medium term will be used to reform and improve the financial regulatory system – a process that is already under way.

Programme 7

PROVINCIAL AND LOCAL GOVERNMENT TRANSFERS

Purpose: Manage three conditional grants to the provincial and local spheres of government. These conditional grants are in addition to the equitable share allocations and constitute only three of the many conditional grants administered by national departments.

Measurable objective: This programme aims to improve the pace and quality of provincial infrastructure investment and asset maintenance, promote financial management reforms in municipalities and restructure service delivery in municipalities with large budgets.

This programme includes three conditional grants:

- The *Infrastructure Grant* to *Provinces* supplements the provinces' infrastructure budgets, and is intended to accelerate the building and maintenance of social and economic infrastructure such as hospitals, clinics, schools, provincial roads and agricultural infrastructure. The grant also assists provinces in the funding of labour-intensive provincial infrastructure projects.
- The *Local Government Financial Management Grant* provides for the transfer and monitoring of funds for local government financial management reforms and the progressive implementation of the Municipal Finance Management Act (MFMA) as part of the capacity-building efforts to modernise financial management in municipalities.
- The *Neighbourhood Development Partnership Grant* supports projects that provide community infrastructure, create platforms for private-sector development and improve the quality of life of residents in targeted areas. The unit administering this grant is discussed in Programme 2.

Policy developments

The *Infrastructure Grant to Provinces provides* for allocations made to complement other provincial resources used to fund provincial infrastructure such as schools, health facilities, roads and agriculture facilities.

The baselines for 2010/11 are revised above inflation at 7.8 per cent. Additional allocations over the medium-term expenditure framework (MTEF) are R400 million in 2008/09, R800 million in 2009/10 and R1.5 billion in 2010/11. The additional allocations will accelerate education infrastructure investments to speed up the eradication of unsafe school structures and step up maintenance of existing infrastructure.

Though actual capital spending by provinces has risen significantly over the past few years, it is still less than the total capital budget in some provinces, resulting in underspending. There is also a need to improve the quality of spending. This requires sustained improvement in systems capacity in the relevant departments. The National

Treasury continues to support the implementation of Infrastructure Delivery Investment Programme (IDIP) to improve capacity and institutionalise good infrastructure planning and management practises in all nine provinces – particularly in education, health, roads and public works departments.

The *Local Government Financial Management Grant* provides financial support to municipalities to implement the MFMA. This entails building in-house capacity in municipalities through skills development, graduate internship programmes, upgrading systems in preparation of quality and timely reports, modernising and improving the quality of multi-year budgets, implementing supply chain management and accounting reforms, producing annual financial statements and annual reports, assistance in the preparation of quality financial recovery plans and support for municipalities to progressively improve audit outcomes.

MFMA implementation has progressed steadily in many municipalities since inception of the act. However, much still needs to be done. In the medium term all 283 municipalities are going to take additional steps to deepen implementation of the MFMA reforms. There is also wide variation in the institutional capability of provinces to help municipalities implement these reforms. To be able to assist as many municipalities as possible, the approach over the medium term will be to increase efforts in building capacity in provincial treasuries, which will then assist municipalities.

Direct transfers to municipalities over the MTEF include R180 million in 2008/09, R300 million in 2009/10 and R365 million in 2010/11. The Municipal Finance Management Technical Assistance Programme agreement with the International Bank for Reconstruction and Development ends in June 2008. The National Treasury is exploring alternative options to continue rendering support to smaller municipalities with less capacity over the medium term. Further assistance will be provided in the form of training for municipal officials. The current number of 470 graduate interns will be doubled by 2011.

More detailed frameworks of these grants are published in Appendices W2 and W3 with the 2008 Division of Revenue Bill.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Programme 7: Provincial and Local Government Transfers

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

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
Infrastructure Grant to Provinces	Monitoring provincial infrastructure development	Transfers in compliance with conditions	Transfers made in accordance with the Division of Revenue Act		
		Reporting on compliance, transfers and spending	Quarterly reporting by nine provinces on aggregate infrastructure spending and outputs		
		Improvement of infrastructure delivery management systems, through implementation of IDIP in provinces	Technical assistance teams appointed to assist education, health and public works departments in nine provinces	Implementation of IDIP in infrastructure programme education, health and public works departments in nine provinces	Implementation of IDIP in infrastructure programme for all provincial departments
			Delivery management systems institutionalised to improve planning and programme/project management in nine education departments and 80% of health and public works departments	Delivery management systems institutionalised to improve planning, budgeting and programme/project management in all of the aforementioned departments	Delivery management systems institutionalised to improve planning, budget and programme/project management in all of the aforementioned departments

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/11 Target Milestone
Local Government Financial Management Grant	Monitoring of municipal financial management reforms and restructuring	Transfers made according to conditions	Transfers made by 31 March 2009 Appointment of at least two interns in 283 municipalities (a total of 566 graduates) Improved reporting in 50 municipalities through the new system Budget reforms in 100 municipalities Progressive implementation of MFMA in all municipalities	Transfers made by 31 March 2010 Appointment of at least two interns in 283 municipalities (a total of 566 graduates) Improved reporting in 150 municipalities through the new system Budget reforms in 150 municipalities Progressive implementation of MFMA in all municipalities	Transfers made by 31 March 2011 Appointment of at least two interns in 283 municipalities (a total of 566 graduates) Improved reporting in all municipalities through the new system Budget reforms in 200 municipalities Progressive implementation of MFMA in all municipalities

RESOURCE PLAN
Expenditure estimates

Table 8: **Provincial and Local Government Transfers**

Subprogramme	**Adjusted appropriation**	**Medium-term expenditure estimate**		
R thousand	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Infrastructure Grant to Provinces	6 414 025	7 246 707	8 796 707	10 080 467
Local Government Financial Management and Restructuring Grants	675 250	180 000	299 990	364 589
Neighbourhood Development Partnership Grant	295 000	530 000	870 000	1 049 000
Total	**7 384 275**	**7 956 707**	**9 966 697**	**11 494 056**
Change to 2007 Budget estimate	225 000	(540 000)	120 000	1 117 547
Economic classification				
Transfers and subsidies	**7 384 275**	**7 956 707**	**9 966 697**	**11 494 056**
Provinces and municipalities	7 320 475	7 833 722	9 796 697	11 445 056
Departmental agencies and accounts	63 800	122 985	170 000	49 000
Total	**7 384 275**	**7 956 707**	**9 966 697**	**11 494 056**
Details of major transfers and subsidies:				
Provinces and municipalities				
Provinces				
Provincial Revenue Funds				
Capital	**6 414 025**	**7 246 707**	**8 796 707**	**10 080 467**
Infrastructure grant to provinces	6 164 025	7 246 707	8 796 707	10 080 467
Transitional grant: North West	250 000	–	–	–
Provinces and municipalities				
Municipalities				
Municipal bank accounts				
Current	**470 250**	**180 000**	**299 990**	**364 589**
Financial management grant - municipalities	145 250	180 000	299 990	364 589
Local government restructuring grant	530 000	–	–	–
Capital	**231 200**	**407 015**	**700 000**	**1 000 000**
Neighbourhood development partnership grant	**231 200**	**407 015**	**700 000**	**1 000 000**
Departmental agencies and accounts				
Departmental agencies (non-business)				
Current	**63 800**	**122 985**	**170 000**	**49 000**
Project development facility trading account: NDP indirect grand	63 800	122 985	170 000	49 000

Expenditure trends

The infrastructure grant to provinces supplements the provincial equitable share. It supports the construction, maintenance and rehabilitation of infrastructure in education, roads, health and agriculture. Spending on provincial infrastructure increased from R3.3 billion in 2004/05 to R6.4 billion for 2007/08 at an average annual rate of 24.2 per cent, mainly due to higher expenditure on roads and transport and increased capital spending. Expenditure on the grant over the MTEF period is expected to increase from R6.4 billion in 2007/08 to R10.1 billion in 2010/11, at an average annual rate of 16.3 per cent, mainly due to improvements in the national education infrastructure management system.

The local government financial management restructuring grant was introduced to assist municipalities to implement financial management reforms and support the technical advisor programme for hands-on skills transfer to municipal officials under the MFMA. Funds were transferred to municipalities based on their implementation plans. Grants to municipalities increased from R517 million in 2004/05 to R675 million in 2007/08, at an average annual rate of 9.3 per cent. In 2007/08, transfers were delayed due to unacceptably low spending levels and sporadic reporting. However, subsequent monitoring has resulted in improved compliance with the framework and expected spending levels, resulting in the transfer of all budgeted funds. Over the MTEF period, the grant decreases from R675 million in 2007/08 to R365 million in 2010/11, at an average annual rate of 18.6 per cent, due to the phasing out of the grant.

The allocation for the neighbourhood development partnership grant has increased from R295 million in 2007/08 to R1 billion in 2010/11, at an average annual rate of 52.6 per cent. This grant to municipalities is for the design of partnership projects and for co-financing the construction of new and better community facilities and related municipal assets. In 2006/07, only R50 million was transferred due to the slow implementation of projects, compared to the projected spending of R295 million.

Programme 8

CIVIL AND MILITARY PENSIONS, CONTRIBUTIONS TO FUNDS AND OTHER BENEFITS

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

Measurable objective: The programme aims to ensure the payment of benefits and awards to beneficiaries of departments, state-aided bodies and other specified entities 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 statutes, collective-bargaining agreements and other commitments. The subprogramme also provides for the payment of special pensions to people who have made sacrifices or served the public interest in the establishment of a democratic constitutional order.
- *Military Pensions and Other Benefits* provides 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.

The GEPF's board of trustees approved and endorsed a decision that the administration of the GEPF should be split from the fund. In terms of the decision the present pension administration establishment is to be ring-fenced and registered as a "government component" under the Public Service Act (1994, as amended). A business case to this effect was compiled and submitted to the Minister of Finance, who confirmed this decision and also communicated the intent to establish a Government Pension Administration Agency to the Minister of Public Service and Administration and the chairperson of the GEPF board of trustees.

Civil Pensions and Contributions to Funds ensures the timely payment of government subsidy on contributions payable 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.

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 (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 their dependants in terms of the Special Pensions Act (1996).

The act gave effect to Section 189 of the interim Constitution in November 1996 regarding the prescription of rules for determining who is entitled to receive a special pension and to provide for the establishment of structures to implement the act – i.e., the Special Pensions Board and the Special Pensions Review Board.

In addition to amendments to the act currently under consideration by Parliament's Portfolio Committee on Finance, the special pensions process is being reviewed with the assistance of forensic auditors.

Military Pensions and Other Benefits ensures the timely 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 (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 socioeconomic needs of war veterans. The Legion's involvement includes facilitating communication, through the publication of policy changes, and acting as a mediator between the National Treasury and pensioners to address queries and pension applications.

The appointment of a health-risk manager will ensure the pursuit of best-practice managed health care, contributing to affordability and sustainability over the medium-term expenditure framework period. A proposal was made in line with the agreed fee structures for the Policy for Incapacity Leave and Ill-health Retirement and is being considered.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Programme 8: 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 entities in terms of various statutes, collective-bargaining agreements and other commitments.

Subprogramme	Output	Measure/Indicator	2008/09 Target Milestone	2009/10 Target Milestone	2010/2011 Target Milestones
Civil Pensions and Contributions to Medical Schemes	Payment of pension benefits and contributions to funds (including special pensions)	All beneficiaries paid monthly	9 182 injury-on-duty (IOD) beneficiaries 8 187 special pensions monthly pensioners	10 142 IOD beneficiaries 8 596 special pensions monthly pensioners	11 142 IOD beneficiaries 9 026 special pensions monthly pensioners
	Payment of contributions to medical aid schemes	All contributions paid timeously	71 169 members per month	74 627 members per month	76 119 members per month
	Payment of risk and administration fees to the Political Office Bearers' Pension Fund	Payment of risk and administration fees in respect of all members monthly	Payment of risk and administration fees in respect of 900 members monthly		
	Notify beneficiaries of special pensions amendments	Successful national awareness campaign	Process all applications by March 2009	Process all applications by March 2010	Process all applications by March 2011
Military Pensions and Other Benefits	Payment of military pension benefits	All beneficiaries paid monthly	6 994	7 024	7 054
	Payment to service providers for medical expenses	All claims paid to service providers monthly	764	806	848

RESOURCE PLAN
Expenditure estimates

Table 9: Civil and Military Pensions, Contributions to Funds and Other Benefits

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2007/08	2008/09	2009/10	2010/11
Civil Pensions and Contributions to Funds	2 077 912	2 184 762	2 261 780	2 214 690
Military Pensions and Other Benefits	160 396	167 926	178 522	183 878
Total	**2 238 308**	**2 352 328**	**2 440 302**	**2 398 568**
Change to 2007 Budget estimate	(100 000)	(100 000)	(149 990)	(330 537)

Economic classification				
Current payments	**15 627**	**16 360**	**34 220**	**33 241**
Goods and services	15 627	16 360	34 220	33 241
Consultants, contractors and special services	*15 627*	*16 360*	*34 220*	*33 241*
Financial transactions in assets and liabilities	–	–	–	–
Transfers and subsidies	**2 222 681**	**2 336 328**	**2 406 082**	**2 365 327**
Foreign governments and international organisations	3 428	3 589	3 763	3 989
Non-profit institutions	65	68	71	75
Households	2 219 188	2 332 671	2 402 248	2 361 263
Total	**2 238 308**	**2 352 688**	**2 440 302**	**2 398 568**

Details of major transfers and subsidies:				
Foreign governments and international organisations				
Current	**3 428**	**3 589**	**3 763**	**3 989**
United Kingdom tax	3 428	3 589	3 763	3 989
Nonprofit institutions				
Current	**65**	**68**	**71**	**75**
SA Legion	65	68	71	75
Households				
Social benefits				
Current	**2 219 188**	**2 332 671**	**2 402 248**	**2 361 263**
Civil Pensions	2 061 102	2 167 163	2 228 713	2 182 519
Military Pensions	158 086	165 508	173 535	178 744

Expenditure trends

Government's contributions to pensions and other benefits on behalf of retired civil servants increased from R1.8 billon in 2004/05 to R2.1 billion in 2007/08 at an average annual rate of 5.2 per cent. This is mainly attributed to an increase in medical and other benefits tariffs and increased spending on injury on duty.

Expenditure is expected to increase further to R2.2 billion in 2010/11 at an average annual rate of 2.1 per cent. This is due to the amendments of the Special Pensions Act, which will expand benefits to widows and orphans and increase the payment of claims for injury on duty.

Programme 9

FISCAL TRANSFERS

Purpose: Transfer funds to other countries, and multilateral and domestic institutions and public entities, including international development institutions of which South Africa is a member.

Measurable objective: This programme consists of transfers for budgetary funding or programme support, with the receiving institutions having their own accountability systems, either by reporting to Parliament directly or through annual meetings held with member countries. The underlying objectives include:

- Fair and efficient collection of revenue for the purposes of the state, in keeping with applicable tax laws
- Independent advice on fiscal and financial matters
- Protection of the national interest and combating of crime through intelligence and related services
- Promotion of local development through financial and technical assistance
- Equitable compensation for members of the Common Monetary Area
- Promotion of regional integration and development in Africa, and international financial cooperation

Domestic budget transfers are made to:

- The South African Revenue Service (SARS)
- The Financial and Fiscal Commission
- The Secret Services account
- The Financial Intelligence Centre.

Foreign transfer payments are made to:

- The World Bank, including the International Development Association, which provides debt relief to poor countries in terms of a bilateral agreement between the donor countries
- The International Monetary Fund
- The African Development Bank and African Development Fund
- Lesotho, Namibia and Swaziland (Common Monetary Area Compensation subprogramme) for the rand monetary area agreement
- African integration and support programmes
- International programmes including the Commonwealth Fund for Technical Cooperation, the Investment Climate Facility, and the Global Alliance for Vaccines and Immunisation.

RESOURCE PLAN
Expenditure estimates

Table 10: Fiscal Transfers

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2007/08	2008/09	2009/10	2010/11
Domestic Budgetary Transfers	**8 157 929**	**9 019 808**	**9 798 007**	**10 733 553**
South African Revenue Service	5 511 031	6 186 126	6 838 442	7 594 324
Financial and Fiscal Commission	20 178	23 125	24 156	25 971
Secret Services	2 584 240	2 763 583	2 888 310	3 063 359
Financial Intelligence Centre	42 480	44 474	44 474	47 143
Cooperative Banking Development Agency	–	2 500	2 625	2 756
Cooperative Banking Development Agency	**278 594**	**296 809**	**269 292**	**285 450**
Development Bank of Southern Africa - Siyenza Manje	225 187	246 809	269 292	285 450
Development Bank of Southern Africa - Financial Management Grant	53 407	50 000	–	–
African Integration and Support	**432 402**	**362 903**	**414 475**	**439 044**
Common Monetary Area Compensation (CMA)	327 402	342 773	359 393	380 957
Regional Integration (SADC and SACU)	5 000	5 000	5 000	5 000
Financial and Technical Support	100 000	15 130	50 082	53 087
Multilateral Institutions	**139 600**	**141 516**	**87 007**	**92 229**
African Development Bank and African Development Fund	90 786	102 382	76 006	80 567
World Bank Group (including IDA)	48 814	39 134	11 001	11 662
International Projects	**18 669**	**19 800**	**20 900**	**21 944**
Highly Indebted Poor Countries Initiative	–	–	–	–
Commonwealth Fund for Technical Cooperation	3 369	3 500	3 500	3 500
International Funding Facility for Immunization	7 500	8 000	8 500	9 010
Investment Climate Facility	7 800	8 300	8 900	9 434
Total	**9 027 194**	**9 840 836**	**10 589 681**	**11 572 220**
Change to 2007 Budget estimate	81 453	328 394	443 002	815 740
Economic classification				
Transfers and subsidies	**9 027 194**	**9 840 836**	**10 589 681**	**11 572 220**
Departmental agencies and accounts	8 157 929	9 019 808	9 798 007	10 733 553
Public corporations and private enterprises	278 594	296 809	269 292	285 450
Foreign governments and international organisations	590 671	524 219	522 382	553 217
Total	**9 027 194**	**9 840 836**	**10 589 681**	**11 572 220**

RESOURCE PLAN
Expenditure estimates

Table 10: Fiscal Transfers (continued)

Details of major transfers and subsidies:				
Departmental agencies and accounts				
Departmental agencies (nonbusiness entities)				
Current	**7 301 264**	**8 085 575**	**8 809 517**	**9 687 053**
Financial and Fiscal Commission	20 178	23 125	24 156	25 971
Financial Intelligence Centre	36 826	38 555	38 555	40 869
Secret Services Account	1 988 556	2 116 936	2 211 353	2 347 084
South African Revenue Service	5 255 704	5 904 459	6 532 828	7 270 373
Cooperative Banking Development Agency	–	2 500	2 625	2 756
Capital	**856 665**	**934 233**	**988 490**	**1 046 500**
Financial Intelligence Centre	5 654	5 919	5 919	6 274
Secret Services Account	595 684	646 647	676 957	716 275
South African Revenue Service	255 327	281 667	305 614	323 951
Public corporations and private enterprises				
Public corporations				
Other transfers				
Current	**278 594**	**296 809**	**269 292**	**285 450**
Development Bank of Southern Africa	225 187	246 809	269 292	285 450
Financial Management Grant- Development Bank of Southern Africa	53 407	50 000	–	–
Foreign governments and international organisations				
Current	**351 071**	**367 573**	**385 293**	**407 901**
Common Monetary Area Compensation (CMA)	327 402	342 773	359 393	380 957
Commonwealth Fund for Technical Cooperation	3 369	3 500	3 500	3 500
Highly Indebted Poor Countries Initiative (HIPC)	–	–	–	–
Investment Climate Facility	7 800	8 300	8 900	9 434
International Funding Facility for Immunization	7 500	8 000	8 500	9 010
Regional Integration	5 000	5 000	5 000	5 000
Capital	**239 600**	**156 646**	**137 089**	**145 316**
African Development Bank	90 786	102 382	76 006	80 567
World Bank	48 814	39 134	11 001	11 662
Financial and Technical Support	100 000	15 130	50 082	53 087

Expenditure trends

There is no direct expenditure under this programme, only transfers to different organisations. Transfers increased from R7.2 billion in 2004/05 to R9 billion in 2007/08, at an average annual rate of 7.7 per cent, mainly due to additional allocations to SARS and the Secret Services, and to the Development Bank of Southern Africa for its support to municipalities through the Siyenza Manje initiative. Transfers are expected to increase from R9 billion in 2007/08 to R11.6 billion in 2010/11, at an average annual rate of 8.6 per cent, due to further increases of transfers to the Secret Services and SARS (to fund customs scanners, systems modernisation and the Border Control Operational Coordinating Committee).

PUBLIC ENTITIES

PUBLIC ENTITIES REPORTING TO THE MINISTER OF FINANCE

Various public entities report to the Minister of Finance. This takes place through governance arrangements that allow reporting institutions the autonomy that they require to meet their mandates. Their links to the ministry enable them to develop strategic alignment with government's policy goals.

Each entity produces, operates and reports according to its own strategic plan, and its inclusion in this section is to reflect briefly on the broad approach of each entity and its relevance to the National Treasury's strategic goals and business.

The South African Revenue Service (SARS), the Accounting Standards Board (ASB) and the Financial Intelligence Centre (FIC) receive transfers from the National Treasury. Other entities that report to the Minister of Finance, but which do not receive transfers from the National Treasury, are the Development Bank of Southern Africa (DBSA), the Financial Services Board (FSB), the Public Investment Corporation (PIC) and the South African Special Risks Insurance Association (SASRIA).

South African Revenue Service

In terms of the South African Revenue Service Act (1997), SARS is mandated to collect revenues that are due, to ensure maximum compliance with legislation, and to provide a customs service that will maximise revenue collection, protect the borders and facilitate trade.

In 2007/08 SARS launched its comprehensive modernisation agenda to transform the tax and customs administration with a view to improving service, increasing outreach and education, increasing enforcement, automating and streamlining systems and processes, establishing standard procedures and enhancing its capability to deliver. Full implementation of these programmes should take five to seven years. SARS is currently in the second year of implementation.

SARS also introduced a new income tax assessment solution during 2007 to improve service by simplifying tax returns, do away with the need to attach supporting documentation and promote e-filing. More than 900 000 returns have been submitted to date, a significant increase on the previous tax year.

Segmentation of the SARS customer base remains the principal driver for the modernisation agenda. To this end, SARS has divided its customer base into 10 segments and scoped specific customer needs and how best to respond to those needs. The focus is on how to improve internal efficiency to enhance service provision. The following focus areas have been identified for the next 12-18 months:

- **Service:** Customer service, outreach and education will be improved mainly through delivery against the SARS Service Charter to improve the ability and speed at which SARS can respond to personal income tax taxpayer queries and the provision of effective, easily available and efficient channels of communication and interaction.
- **Operations:** SARS will enhance core capabilities by minimising manual and paper-based transactions and improving employee productivity. This will include the upgrading and stabilisation of information and communication technology. The focus will be on modernising personal income tax operations and other tax and customs products.
- **Risk:** SARS will develop an integrated risk and enforcement system that prioritises effort based on the amount of revenue at risk and the probability of non-compliance. This will include using sophisticated methods such as risk profiling, modelling and third-party data to ensure better targeting of enforcement efforts.
- **Strengthening border control:** The focus will be on strengthening the role of customs and SARS's role as lead agency in border management – and managing border and tax-related issues in the hosting of the 2010 FIFA World Cup.
- **Capacity enhancement:** Organisational capabilities will be enhanced to increase the number of tax and customs professionals and to close specific technical skill gaps, as well as develop generic managerial and leadership skills.

Accounting Standards Board

The ASB is a statutory body established in terms of the Public Finance Management Act (PFMA) to set standards of generally recognised accounting practice (GRAP) for all spheres of government. It also promotes transparency in and effective management of revenue, expenditure, assets and liabilities of the entities to which the standards apply.

The chief objective of the ASB is to have developed a core set of accounting standards by 2008/09 for implementation by all spheres of government. In reaching this goal, the ASB still needs to consider impairment, financial instruments, employee benefits and related parties. Two exposure drafts on impairment were approved for issue in March 2008 and the relevant GRAP standards should be completed before 31 March 2009. A draft standard on employee benefits will be tabled for approval to be issued as an exposure draft at the May 2008 Board meeting. A discussion paper on financial instruments was issued in September 2007. Subject to the evaluation of comment received, the secretariat will be developing an exposure draft for consideration by the ASB during the new financial year. International developments, however, are likely to delay the completion of a Standard of GRAP on Related Parties.

The Board's 2008/09 work programme focuses on the following key areas:

- The development of a core set of standards of GRAP

- International cooperation with the International Public Sector Accounting Standards Board to develop International Public Sector Accounting Standards (IPSAS)
- Local initiatives to fill public-sector gaps
- The development of accounting and reporting guidelines, and undertaking research in identified areas of financial reporting.

Implementing the Standard of GRAP will lead to improved decision-making, allocation of resources and improved accountability, by having all spheres of government preparing financial statements that are comparable.

Financial Intelligence Centre

The Financial Intelligence Centre Act (2001) was introduced to develop and maintain an effective policy framework and operational capacity to provide high-quality, timely financial intelligence for use in the fight against crime and in particular, money laundering and terror financing. This contributes to South Africa's efforts to protect the integrity and stability of its financial system, develop economically and be a responsible global citizen.

The FIC started functioning in 2003 and has already shown its value to law enforcement authorities. Accountable institutions submit reports on suspicious financial activities, which the FIC analyses. It then makes appropriate referrals to the various law enforcement authorities, intelligence agencies and to SARS for investigation and, where possible, prosecution. The centre's work provides law enforcement authorities with additional tools to investigate and prosecute crime.

The centre also monitors the levels of compliance under the act by the accountable institutions and the designated supervisory bodies, with which it has a close working relationship. It will continue to administer the act and review the anti-money laundering and terror financing regulatory regime to make this more effective. In addition, the FIC provides training to law enforcement authorities and other stakeholders in financial investigation.

These processes require high levels of cooperation and coordination of programmes and activities between the FIC and the various government departments and bodies.

The FIC leads the country delegation to the international standards-setting body, the Financial Action Task Force, which sets and monitors international standards and implementation. The FIC also participates in the activities of the Egmont Group of financial intelligence units.

Development Bank of Southern Africa

The DBSA is a Schedule 2 public entity governed by the Development Bank of Southern Africa Act (1997).

The DBSA's strategy is to invest in infrastructural assets – broadly defined to include economic, institutional and social assets – that serve the poor, both directly and indirectly, in terms of basic services, human capacity and broad-based economic development. The bank's vision has been focused to tackle the problems of poverty and dependency by addressing prosperity and broad-based growth more explicitly, while its triple roles of financier, partner and advisor have been expanded to include those of implementer and integrator.

The DBSA's strategy has five main themes:

- Co-deliver social and economic infrastructure, with a focus on the public sector, in partnership with public- and private-sector stakeholders working in the same space.
- Build human and institutional capacity, with a focus on municipalities.
- Promote broad-based economic growth, job creation, cooperation and integration, with a focus on identified sectors (e.g., infrastructure development for service delivery), geographical areas (poorest provinces, municipalities and townships) and projects.
- Serve as a centre of excellence for development financing and effectiveness.
- Engender sustainability, internally and externally (in infrastructure projects, the environment, the region and the bank itself).

The DBSA's main initiatives in 2008/09 include Siyenza Manje (the project implementation task force launched in 2006/07), Sustainable Communities (the bank's integrated development initiative focused on social infrastructure and launched in 2006/07), the Vulindlela Academy, the Local Investment Agency and support for the 2010 FIFA World Cup. Details about these projects/initiatives can be found in the DBSA's Corporate Plan.

A new initiative, the Local Economic Development Fund, is in the early stages of implementation. The aim of this fund is to advance local and regional economic development by targeting technical assistance, partnership ventures and affordable loan funding to unlock and accelerate broad-based economic growth, especially in historically neglected areas with potential.

Financial Services Board

The FSB is a statutory body established in terms of the Financial Services Board Act (1990). It supervises the activities of financial institutions and the financial products and services they offer. Since the introduction of the Financial Advisory and Intermediary Services Act (2004), the mandate of the FSB has been expanded to include aspects of market conduct in the banking industry.

The FSB acts in an advisory capacity to the Minister of Finance. The board is financed by levies and fees by the financial services industry, with no contribution from government.

The FSB supervises institutions and services in terms of 13 acts. Functions include regulatory supervisory control over long- and short-term insurance, retirement funds, friendly societies, capital markets, financial advisory and intermediary services, collective investment schemes and central depositories responsible for the safe custody of securities. The board is also responsible for the financial supervision of the Road Accident Fund.

Strategic focus areas for the period ahead include:

- Creating and implementing an effective legislative framework that will promote compliance
- Ensuring that an appropriate regulatory environment is maintained and enhanced
- Collaborating and building critical relationships with stakeholders for the continuous alignment of operations to their needs
- Developing informed consumers who are aware of financial products and services.

Public Investment Corporation

The PIC is an investment management company wholly owned by government. It is established as a corporate entity in terms of the Public Investment Corporation Act (2004), and registered as a company in terms of the Companies Act (1973) and as a financial services provider in terms of the Financial Advisory and Intermediary Service Act (2002). The rights attached to government's shareholding are exercised by the Minister of Finance.

The PIC invests funds on behalf of 40 public entities. The largest of these clients is the Government Employees Pension Fund, which accounts for more than 90 per cent of assets under management. The PIC invests funds in various asset classes: equities, fixed income (bonds), money markets, properties and the Isibaya Fund which, in turn, invests in infrastructure, socially responsible investments and black economic empowerment initiatives.

Assets managed by the PIC have grown from R221 billion in 2000 to R719.8 billion as at 31 March 2007, making it one of the largest investment managers in South Africa and on the African continent.

The PIC is self-funded and produces an annual report that is tabled in Parliament.

SASRIA

Sasria Ltd is a short-term insurance company established in terms of the Conversion of Sasria Act (1999). The company is wholly owned by government. Its primary purpose is to provide insurance against extraordinary perils that are normally excluded by the conventional short-term insurers. These risks include riots, strikes, labour disturbances and terrorism.

Sasria's vision and its reason for existence as a specialist insurer is to provide cover against extraordinary risks for the benefit of the country and its people. Sasria endeavours to provide this cover at the lowest possible premium rate to make the cover affordable to the majority of South Africans.

The company strategy is reviewed every year. Current strategic priorities include:

- Enhancing the current book of business through research and development of new products
- Developing current staff and recruiting additional staff where necessary to ensure that the company has appropriate skills
- Creating awareness of the Sasria brand among the insuring public as well as the agent companies, underwriting managers, and intermediaries.

Sasria's corporate social investment programme, which has been in place and growing for over five years, is geared towards the youth of our country. Sasria sponsors over 60 disadvantaged actuarial students at two universities at an annual cost in excess of R6 million. Sasria is also helping to develop new actuaries who will benefit the country in general and financial services in particular.

ORGANISATIONAL INFORMATION AND INSTITUTIONAL ENVIRONMENT

Delegations

Human resources management

To fast track decision-making, certain powers vested in both the Minister of Finance and the Director-General of the National Treasury have been delegated to divisional heads and senior managers. These delegations are being reviewed to ensure that they are in line with amendments to labour legislation and government prescripts. If necessary, further delegations will be recommended for approval. The delegated powers are to ensure that senior management have the authority to execute their responsibilities and will be implemented within the prescripts of the laws that ensure good governance.

Financial management

Financial delegations provided for by Section 44 (powers and duties of accounting officers) of the Public Finance Management Act are continuously being reviewed and updated to ensure applicability and alignment with the organisational structure. The delegations were reviewed during the latter part of 2007/08 and recommended by the governance review committee.

Capital transfers and financial assets

The National Treasury administers capital transfers to, among other institutions:

- The South African Revenue Service (also current transfer)
- The Financial Intelligence Centre (also current transfer)
- The Secret Services (also current transfer)
- The African Development Bank (ADB).

Acquisition of financial assets on behalf of government includes shares in the ADB. Government is a shareholder of the African Development Fund of the ADB.

Information technology systems

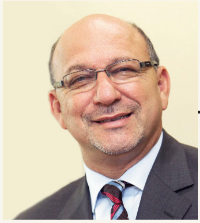
The strategic alignment of information technology (IT) with business priorities will continue to be a key area. The *Information Technology* unit will seek to grow cross-functional and divisional engagements for the benefit of the National Treasury. IT operations are being streamlined and the unit is implementing a proven best-practice framework in the form of ITIL to ensure consistent service delivery, improved audit and IT governance. The improved central service desk will further enhance the service offering by the unit, supporting client needs with IT advice and analysis.

Performance management system

A major focus over the next three years will be on aligning organisational performance with team and individual performance, with the ultimate aim of linking rewards for employees to achievement and excellence in all three areas. A further priority will be to enhance performance management tools to be more user-friendly and to introduce appropriate feedback mechanisms. Technology will be used to make the performance management system more effective and efficient.

Promotion of a learning culture in the National Treasury

The 2004/05 strategic planning session highlighted the need to establish a culture of learning in the National Treasury and identified several ways of empowering the staff. This led to the creation of a knowledge management functional area that will provide staff with a technology-driven knowledge sharing and e-learning environment.



Minister of Finance
Trevor Manuel

Deputy Minister of Finance
Jabu Moleketi

Director-General
Lesetja Kganyago

Head
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Vacant
- Human Resources Management
- Financial Management
- Communications & IT
- Legal Services

Head
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Andrew Donaldson
- Protection Services
- Economic Services
- Administrative Services
- Social Services
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- Public Finance Statistics
- International Development Coordination
- Fiscal Policy
- Public Private Partnership Unit

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- International Financial Relations
- Tax Policy

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- Financial Operations
- Strategy & Risk Management

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

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