National Treasury Strategic Plan

2003-2006

ISBN: 0-621-33636-X
RP: 39/2003

The 2003-2006 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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National Treasury

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2003-2006

REPUBLIC OF
SOUTH AFRICA

National Treasury

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MINISTER'S STATEMENT OF POLICY AND COMMITMENT

This year's Budget is the tenth presented to a democratic South African Parliament. In February, we presented the fruits that we are reaping from the prudent, yet tough, economic policy choices made over the past decade.

Ten years ago the economy was in deep recession, growth was negative, inflation and the fiscal deficit high and future prospects low. Today the picture is vastly different. Our economy is growing and our public finances in a healthy state. Inflation has declined dramatically and investment flows have increased. Our macroeconomic and fiscal policies and fundamentals remain solid.

We are able, in the 2003 Budget, to extend and strengthen Government's growth and development strategy, reaping the fruits and increasingly realising our social and economic goals for a "Better Life for All".

Yet, there is by no means cause for complacency. We continue to face the challenges of unemployment and poverty, which, together with the rest of Government, we are charged with eradicating. This requires that we all place our full force behind the challenge, recognising the enormity of the task and the importance of responding to the President's call for improved service delivery to our communities.

The expansionary fiscal stance first signalled in the 2001 Budget is maintained for the 2003 MTEF, with the deficit widening to 2,4 per cent of GDP next year, before declining to 2,3 per cent in 2005/06.

This provides for real annual growth of 4,5 per cent in national and provincial non-interest expenditure to meet Government's expenditure priorities, further cuts in taxes to lower- and middle-income earners, and significant additions to infrastructure development.

Our challenge is to strengthen fiscal analysis capacity, deepening understanding of fiscal trends in the economy and their impact of long-term growth and investment.

One of Government's biggest challenges is creating employment. The Department of Labour is developing an integrated employment strategy in collaboration with the Presidency, the National Treasury and the Departments of Labour, Trade and Industry, Public Works and Provincial and Local Government. Various elements of the strategy will be presented at the Growth and Development Summit later this year.

Developing macroeconomic policies relevant to the challenge of growth and development include deepening South Africa's financial markets, gradually liberalising exchange controls, and improving financial-sector oversight and regulation. Also important, specifically in relation to the development of the Southern African region, is cooperation with neighbouring Southern African Development Community (SADC) countries on issues such as taxation, promoting investment and economic integration within the region. Our involvement in the New Partnership for Africa's Development (Nepad) remains a key focus and, more particularly, Africa's economic integration through appropriate policy, governance and institutional development.

We continue to engage actively with multilateral institutions, including the International Monetary Fund, the World Bank, the G20, and the G24. Over the next three years we intend to strengthen our engagement, focusing on shaping the global development policy agenda to improve development policies for African economies and to increase the level of aid flows. These engagements share the fruits that we now enjoy, enhancing sustainable growth and development across the region.

Notwithstanding these achievements, the national Budget, and its outcomes, is the test of our achievements. Government plans its programme of delivery over a three-year period and the challenge is to implement our policy choices in a manner that holds us accountable to the people we serve. In particular, the *Estimates of National Expenditure* outlines the spending plans and priorities of each government department. For the first time, measurable objectives are introduced for each programme within a department's budget vote, as prescribed by the Public Finance Management Act. The introduction of these objectives raises the level of Government's commitment to budgetary transparency and accountability for expenditure outputs.

Departments are now required to publish three-year strategic plans, outlining the strategic and measurable objectives and service delivery targets. These plans are resourced through the departmental MTEF allocations. Service delivery progress against plan is reported on in departmental annual reports, completing the accountability cycle.

The presentation of strategic plans enhances transparency of the budget process, fundamentally changing the way in which Parliament and society engage with the Budget.

I would like to thank Maria Ramos, Director General of the National Treasury, and her team for their outstanding work.

Trevor Manuel
Minister of Finance

OVERVIEW BY ACCOUNTING OFFICER

Prudent fiscal policy and excellent financial management are the cornerstones of government finances. Having made the hard choices over the past few years, we are now able to reap the fruits of a greatly improved economy and enhanced social services for all South Africans.

Over the next three years, the National Treasury will focus on ongoing fiscal and budgetary reform aimed at promoting sustainable growth and development, poverty reduction, enhancing budgetary transparency and improving financial management. In particular, the *Budget Office, Public Finance, Intergovernmental Relations* and *Economic Policy and International Relations* divisions will intensify their efforts to develop and implement appropriate policies and legislation that contribute towards poverty reduction and enhance job creation.

A key player in the evolving intergovernmental system, the National Treasury will continue to focus on the implementation of financial and budget reforms underpinned by the Public Finance Management Act. Provinces and local government are at the forefront of delivery and efforts to improve their performance remain high on the Treasury agenda.

The recent publication of the *2003 Intergovernmental Fiscal Review* provides a consolidated review of how the nine provinces and 284 municipalities fund basic and social service delivery. We are pleased to report that provincial finances are stabilising and attention is now focused on improving the quality of spending in health, education and social development. At the local level, this year will see the introduction of the Municipal Finance Management Bill that extends and deepens financial management and budget reforms to municipalities.

South Africa's robust economic performance in the face of global turbulence is, in part, due to the strength and stability of our financial section and systems. Nepad and regional policy reform remain key foci of the National Treasury, more particularly, Africa's economic integration through appropriate policy, governance and institutional development. Commitment to regional collaboration is borne out by our focus on developing and implementing proposals for regional financial sector strengthening and integration. Efforts to minimise the extent of global economic "contagion" and volatility include examination of policies to manage capital account shocks and managing the transition from exchange controls to prudential regulation of the foreign investment of institutional investors.

Efficient management of public sector debt is a further priority for the National Treasury. In an environment of considerable global economic turmoil, South Africa's domestic and foreign debt continue to attract increasing demand. Furthermore, we project a decline in state debt costs to 3,8 per cent of GDP in 2005/05, releasing further resources for spending on Government's social and economic priorities.

Debt management activities ensure that we finance the government budget deficit at the lowest possible cost and risk. This means borrowing in the domestic and foreign markets, ensuring continued access to both markets and enhancing their liquidity through the issue of tradeable instruments, such as inflation-linked bonds. Our borrowing strategy is complemented by prudent cash-management activities that ensure appropriate monitoring and regulation of cash movement.

Strengthening fiscal analysis capacity within the National Treasury in line with international trends and requirements towards robust public financial management. Following the Asian financial crisis in 1998, multilateral institutions and governments around the world agreed to implemement a system of reviews of performance (Reports on Standard Codes or ROSCs) by governments on a broad range of policy issues. South Africa is one of a few countries to have completed all 11 of the ROSCs instituted by the International Monetary Fund and the World Bank.

Cabinet this year has identified the reform of government procurement policies as a key priority. Following the completion of a countrywide procurement assessment, the National Treasury developed and published for comment a *Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government*. The strategy is aimed at promoting sound financial management and uniformity in the implementation of procurement reform initiatives across Government. It also provides the framework for review of the Preferential Procurement Policy Framework Act and its Regulations, ensuring that they contribute more effectively towards meeting Government's objectives for black economic empowerment over the medium term.

National Treasury intends to build on the progress made in public sector financial management and accounting. In this respect, the Accountant General's Office has initiated a complete process to draft formats for annual financial statements, ensuring that there is greater uniformity in reporting across national and provincial departments. The team has also circulated an internal audit framework for comment by all stakeholders. Strengthened capacity in the Accountant General's Office will enable it to roll out implementation of improved formats for financial reporting by national and provincial government and lead the migration of financial accounting and reporting towards Generally Recognised Accounting Practices (GRAP).

The finalisation of the restructuring of the National Treasury will be a key outcome of our budget vote. This process has now reached a stage where the absorption of staff and the redeployment of excess staff, where possible, are being implemented.

Our restructuring process has also necessitated a re-evaluation of our information technology environment. We intend to overhaul and completely restructure our Information Technology unit over the next 18 months, ensuring that the revised information technology strategic and service delivery plan that meets the National Treasury's business requirements as set out in its *Strategic Plan* for the 2003 MTEF period.

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

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

On the financial management side we are pleased with the appointment of a new Chief Financial Officer and increased management capacity in that unit. Key priorities include the finalisation of the Department's financial manual and further progress on National Treasury delegations.

Our Legal Services unit has produced sterling work over that last period and provides a fundamental support function to the Department and the Ministry. National Treasury will strengthen the unit further over the next three years to enable it to provide legal services on a wider range of domestic and international finance legislation.

It is envisaged that, in support of the National Treasury's policy agenda for financial and fiscal reform, funds will be required to assist in passing and implementing significant pieces of legislation. These include the Municipal Finance Management Bill, the Financial and Fiscal Commission Amendment Bill and the Money Bills Amendment Procedure Bill. Proposed constitutional amendments to ensure appropriate interventions in municipalities faced with financial emergencies will be a major legislative item over the medium term.

This *National Treasury Strategic Plan for 2003-2006* provides details of our priorities and programmes for the next three years. Read together with Vote 8 of the *2003 Estimates of National expenditure* and our *2002/03 Annual Report*, to be published in August this year, it provides critical insight into the priorities and performance of the National Treasury team. We thank Minister Trevor Manuel and Deputy Minister Mandisi Mphahlwa for their continued guidance and support.

Maria Ramos

Maria Ramos
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 work as a team, planning with precision and executing with enthusiasm and commitment, striving at all times to improve our performance.

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

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

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

MISSION AND OBJECTIVES

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

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

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

We promote transparency and enforce effective financial management.

VALUES

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

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

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

LEGISLATIVE MANDATE

With its role defined within the Constitution of the Republic of South Africa and in the Public Finance Management Act, the National Treasury is responsible for promoting the national Government's fiscal policy framework and coordinating macroeconomic policy. We

coordinate intergovernmental financial and fiscal relations and manage the budget preparation process. The National Treasury exercises control over the implementation of the annual national Budget, including any adjustments Budgets. We facilitate the implementation of the annual Division of Revenue Act, monitor the implementation of provincial budgets and promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities of departments, public entities and constitutional institutions. We also perform other functions assigned to the National Treasury in terms of these Acts.

SERVICE DELIVERY ENVIRONMENT

The National Treasury manages its service delivery and implements its broad priorities through the activities of the Department's eight programmes. Our ongoing fiscal reform is aimed at promoting sustainable growth and development, poverty reduction, enhancing budgetary transparency and improving financial management. We continue to develop systems to improve the monitoring and reporting of public expenditure, enhancing transparency and accountability, thereby contributing to improved service delivery over the medium term.

On the financial management priorities, the development of public sector accounting rules will help to enhance the quality, accuracy and usefulness of Government's financial statements. National Treasury is helping to design and implement financial statements, which will be in line with the Generally Recognised Accounting Practice (GRAP) standards, currently being set by the Accounting Standards Board.

Macroeconomic policies

Our macroeconomic policies are developed to be relevant to the challenges of globalisation and include deepening South Africa's financial markets, gradually liberalising exchange controls, and improved financial sector oversight and regulation. We actively engage in the development of the Southern African region through cooperation with neighbouring Southern African Development Community (SADC) countries on issues such as taxation, promoting investment and economic integration within the region.

Stronger relationship with provincial and local government

A key area where progress has been made is in the development of the National Treasury's relationship with other spheres of government. Here, the National Treasury has sought to articulate consistent policies, which promote development and increase social and economic equality. One way in which it pursues this objective is through the enactment of the annual Division of Revenue Act, which governs the management of grants to both the provincial and local spheres. New frameworks for the allocation of these grants provide sharper definitions of the purpose and intended outputs for each grant. This enhances transparency and is expected to lead to improved delivery.

The ongoing evolution of the system of intergovernmental fiscal relations will be achieved at the provincial level by rationalising grants to ensure that there are fewer, but better-administered grants. With the turnaround in provincial infrastructure investment, it is envisaged that the Provincial Infrastructure Grant will be phased into the equitable share. Future initiatives will focus on institutionalising good practices in relation to infrastructure planning, supply-chain management (procurement) and delivery. At the local government level the priority will be to reinforce budget reform and financial management. The aim is to assist municipalities to enhance their financial management capacity and to strengthen the link between policy, planning and budgets.

Implementing the PFMA

Transforming public sector financial management is a key objective of the National Treasury. To this end, the Department is implementing the Public Finance Management Act (and the Municipal Finance Management Act when the latter is enacted), and providing and managing appropriate systems for monitoring and managing expenditure. It is rolling-out financial management systems, which will ensure not only the transparency of expenditure but also the effective and efficient use of scarce resources to achieve social transformation. These systems for enhancing the integrity and effectiveness of supply-chain and expenditure management have been among the most important of National Treasury's reforms.

Appropriate tax policies

The South African Revenue Service, a public entity reporting to the Minister, has consistently exceeded its revenue targets and has been most efficient and effective in its revenue collection. It has introduced e-filing and payments, implemented a capital gains tax, changed the nature of taxation from source based to residence-based, and also developed a risk-management approach to compliance, with emphasis on the measurement of the tax gap and the identification of high-yield strategies.

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

Managing public sector debt

Our Asset and Liability division is charged with the efficient management of public sector debt. This division manages the financing of the budget deficit. Mechanisms for financing the government deficit for the 2003 budget year are currently being put in place. These include borrowing in the domestic and foreign markets and using the proceeds of the restructuring of state-owned enterprises. The main objective is to finance at a lower cost while taking cognisance of the risk limits. This approach will be implemented within a prudent cash management framework that ensures that the movement of cash is properly monitored.

ORGANISATIONAL ENVIRONMENT

The implementation of the National Treasury restructuring has shaped a lot of the organisational environment within the department. This process is now in its final phase and involved a series of activities and consultations with the Department of Public Service and Administration and employee organisations. The restructuring entailed, among others, the creation of appropriate organisational structures for the various chief directorates, the identification of suitable employees for absorption against the new structures and the redeployment of others to appropriate positions within the National Treasury. The enhanced functions of the eight divisions created under the National Treasury required the recruitment of a number of professional staff. The delegation of powers to divisional heads to appoint employees below the senior management level helps to expedite decision-making in the appointment of new staff.

Further expansion of the eight divisions necessitates additional accommodation requirements over the 2003 MTEF period. The National Treasury is considering undertaking infrastructure renovations to the 38 Church Square building, dependent on positive engineering reports. The next three years will also see the completion of refurbishment of the 240 Vermeulen Street building, revision of the internal arrangements in 40 Church Square to optimise divisional accommodation and refurbishment of the Cape Town office at 120 Plein Street. The extensive efforts we put into our accommodation have assisted in creating a far more conducive working environment for National Treasury staff.

The restructuring also impacted on the National Treasury's information technology requirements. National Treasury's new business arrangement demands the re-evaluation of its information technology requirements and calls for the reshaping of its information technology focus over the MTEF period. National Treasury is therefore busy restructuring the Information Technology unit over the next 18 months.

The implementation of the Public Finance Management Act is ongoing, with the National Treasury showing a good implementation record. A risk-management exercise has been completed and a fraud-prevention plan developed. Internal controls and asset management procedures have been implemented.

At the level of management coordination, we have creation the position of Chief Operating Officer in the Office of the Director General. It is envisaged that management coordination, policy support and coordination will be managed from this office.

Each of the eight divisions has developed strategic plans in line with the National Treasury mission and objectives. These plans inform the National Treasury calendar of events and work programme of the next three years.

RESOURCE PLAN
Expenditure estimates

Table 1: National Treasury

Programme	Adjusted appropriation	Revised Estimate	Medium-term expenditure estimate		
R thousand	2002/03		2003/04	2004/05	2005/06
1 Administration	118 405	112 405	102 382	98 598	105 490
2 Economic Planning and Budget Management	124 354	101 354	122 593	134 598	137 343
3 Asset and Liability Management	31 613	25 613	42 831	42 163	45 559
4 Financial Management and Systems	313 584	293 584	357 716	387 473	415 191
5 Financial Accounting and Reporting	56 195	6 195	63 208	69 764	74 984
6 Provincial and Local Government Transfers	2 480 000	2 355 000	3 061 403	3 418 511	3 627 451
7 Civil and Military Pensions, Contributions to Funds and Other Benefits	1 915 635	1 915 635	2 029 569	2 163 966	2 293 804
8 Fiscal Transfers	5 316 868	5 291 868	5 992 605	7 100 589	7 136 954
Subtotal	**10 356 654**	**10 101 654**	**11 772 307**	**13 415 662**	**13 836 776**
Direct charge on the National Revenue Fund	170 692 781	170 706 849	193 372 030	208 392 096	222 626 442
Provinces Equitable Share	123 456 849	123 456 849	142 386 030	155 313 096	167 556 442
State Debt Costs	47 235 932	47 250 000	50 986 000	53 079 000	55 070 000
Total	**181 049 435**	**180 808 503**	**205 144 337**	**221 807 758**	**236 463 218**
Economic classification					
Current	7 682 376	7 453 376	8 335 713	9 501 185	9 882 962
Personnel	153 358	117 358	206 187	218 418	230 205
Social contributions	1 777 038	1 777 038	1 890 359	2 023 904	2 145 339
Transfer payments	5 283 578	5 156 578	5 763 374	6 748 837	6 963 623
Other current	468 402	402 402	475 793	510 026	543 795
Capital	2 674 278	2 648 278	3 436 594	3 914 477	3 953 814
Transfer payments	2 640 916	2 617 916	3 418 279	3 898 418	3 936 677
Acquisition of capital assets	33 362	30 362	18 315	16 059	17 137
Total	**10 356 654**	**10 101 654**	**11 772 307**	**13 415 662**	**13 836 776**

	Adjusted appropriation	Revised Estimate	Medium-term expenditure estimate		
R thousand	2002/03		2003/04	2004/05	2005/06
Standard items of expenditure					
Personnel	153 358	117 358	206 187	218 418	230 205
Administrative	47 369	46 369	54 881	59 388	63 505
Inventories	10 497	10 497	10 840	11 353	11 775
Equipment	36 039	33 039	15 974	13 637	15 164
Land and buildings	–	–	4 800	5 100	4 800
Professional and special services	402 326	337 326	401 831	430 478	459 191
Transfer payments	7 924 494	7 774 494	9 181 653	10 647 255	10 900 300
Miscellaneous	1 782 571	1 782 571	1 896 141	2 030 033	2 151 836
Total	**10 356 654**	**10 101 654**	**11 772 307**	**13 415 662**	**13 836 776**

EXPENDITURE TRENDS

In the main, the National Treasury budget vote is made up of transfer payments that make up about 80 per cent of the total budget. These transfers are for Civil and Military Pensions, Secret Services, Fiscal Transfers and Provincial and Local Government Transfers.

The National Treasury's core budget, resourcing Programmes One to Five, amounts to only R688,7 million in 2003/04, R732,6 million in 2004/05 and R778,6 million in 2005/06. This reflects expenditure growth of about 10 per cent a year over the medium term.

The largest structural change to the Department's budget over the past year is the shift of responsibility for accounting systems from *Financial Accounting and Reporting* to *Financial Management and Systems*. This move was designed to ensure greater integration of the management and development of Government's crosscutting financial systems into the planning for the full implementation of the Public Finance Management Act.

The number of employees in the Department rose by almost 41 per cent between 2000/01 and 2001/02, when the amalgamation of the previous departments of Finance and State Expenditure and the creation of new departmental functions necessitated the expansion of posts. However, the Department does not expect to employ more people over the medium term, with personnel numbers remaining at around 750 people.

Direct charges from the National Revenue Fund

The budget of the National Treasury is used as the vehicle through which funds are channelled to provincial government. This is in terms of the constitutional requirement that they obtain an equitable share of revenues raised through national taxes. In addition, it is through the budget of the National Treasury that funds are allocated for the servicing of Government's debt obligations. The direct charges on the National Revenue Fund will rise by a little over 9 per cent a year over the medium term.

Allocations to the provinces will continue to grow at over 10 per cent a year over the medium term. This growth facilitates the overall increase in spending on services to the public, especially through the social services sector, which is funded through provincial government budget.

PROGRAMME STRATEGIC PLANS

Programme Strategic Plans

Programme Strategic Plans

PROGRAMME 1: ADMINISTRATION

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

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

The programme is divided into five subprogrammes:

- The *Minister* subprogramme provides for the Ministry of Finance and includes Parliamentary and Ministerial support services.
- The *Deputy Minister* subprogramme provides for the Office of the Deputy Minister of Finance and related support services.
- *Management* funds the Office of the Director General and related support services.
- *Corporate Services* supports the administration and smooth running of the Department.
- *Sector Education and Training Authority* (Seta) allocates funds to Fasset, the Sector and Education Training Authority for finance, accounting, management consulting and other financial services.

Policy Developments

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

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

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

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

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

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

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

These responsibilities, when placed on the shoulders of a single individual, demand extraordinary strategic, political, technical and managerial skills, effort and commitment.

National Treasury has chosen to pilot the model of the *Chief Operations Officer* to support the Director General and raise her capacity to respond to the strategic, policy and organisational challenges that she faces.

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

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

The National Treasury senior management team is presently discussing proposals regarding the enhanced functions of the Office of the Director General. It is expected that a revised structure for the office will be approved and new positions advertised and filled later this year.

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

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

In 2000/01 major restructuring saw the former Finance and State Expenditure departments merge into one department, the National Treasury. The *Human Resource Management* unit is responsible for the overall restructuring of the Treasury in accordance with the *Aligned Framework: Restructuring of the National Treasury*. The latter, entered into with the relevant labour organisations, is aligned to Resolution 7 of 2002 – the framework that is aimed at transforming and restructuring the public service to improve its efficiency and to provide for redeployment, retraining and, where possible, alternative employment for excess employees.

Considerable effort went into developing and implementing a new structure and filling core senior management and professional positions. This process must now be consolidated through further appointments that ensure employment equity and allow excess employees to the new establishment to apply for voluntary severance packages.

Over the next three years, the Department intends to implement improved human resource processes, procedures and systems. Key among these are the implementation of new performance-management and personal development systems, ensuring completion of performance contracts for all senior managers and the provision of further employee training and development at all levels. *Corporate Services* also intends piloting a service delivery programme aimed at improving divisional performance and delivery over the MTEF period.

Driven by its skills requirements over the next few years, the National Treasury has developed its own Education, Training and Development strategy that focuses on enhancing employees' skills at all levels. As part of the strategy, the National Treasury has developed a competency framework and training curriculum. The Department intends implementing a leadership, management and supervisory development programme, an internship programme and a mentorship programme during 2003/04. These programmes will contribute towards the implementation of a career-development system that provides for further employee training and development at all levels.

The finalisation of a skills audit at the macro level contributed towards completion of the Treasury training curriculum. This year the team intends completing a skills audit at the individual level, ensuring continual compliance with the requirements of the Skills Development Act.

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

The appointment of a new Chief Financial Officer has contributed to improvements in and the streamlining of National Treasury financial management procedures and processes. The unit has made considerable progress with the establishment of an outsourced internal audit function, completion of a risk-management assessment exercise and development of a fraud-prevention plan in line with PFMA and National Treasury Regulation requirements.

The focus going forward will be on enhancing and building on these achievements to ensure continual compliance. Key priorities this year include the finalisation of the Department's financial manual and further progress on National Treasury financial delegations.

National Treasury is one of the pilot departments for the new decentralised procurement system, which aims to improve procedures, transparency and to meet empowerment targets. The Department has made considerable progress in this area. The Accounting Officers Procurement Procedures contains departmental procurement procedures. An established Accredited Procurement unit is now in operation, and further streamlining of procedures will continue with annual targets being set regarding procurement from black economic empowerment and small-, micro- and medium-sized firms. Key vacant positions need to be filled to drive this process forward over the next three years.

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

The *Communications and Information Technology* unit appointed a Director for Information and Technology this year and plans to strengthen the section over the next three years. Presently, the information technology function and support is outsourced to two contract houses, as well as the State Information Technology Agency, which provides basic services such as Wider Area Network (WAN) connectivity and Internet access to National Treasury. The Department has entered into comprehensive service level agreements with all three providers.

Over the past year, state-of-the-art network infrastructure was installed at the 240 Vermeulen Street building, mirroring the information technology infrastructure at the 40 Church Square building. Further plans include installing a fault-tolerant “backbone” and an advanced disaster recovery system (in the case of infrastructure failure), as well as an asset-tracking system, venue and facilities booking systems, a document-tracking application and task-specific applications that are relevant to specific needs.

Over the next 18 months, the unit intends to restructure the information technology function and infrastructure, providing enhanced support to the National Treasury over the 2003 MTEF period. Restructuring plans include a redesign of the current network operating system, which will providing further functionality to the current environment. This will include advanced digital authentication and signatures, and the implementation of an electronic work-flow system, eliminating paper-based approval procedures. The unit intends adding further security, encryption and intruder-detection systems, and will investigate the use of mobile solutions that allow National Treasury personnel to link up to the departmental information technology network on a remote, but safe, basis.

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

The *Legal Services* component of National Treasury has developed from playing an advisory role to providing a more comprehensive and fundamental support function to the Department and the Ministry. National Treasury intends to strengthen the unit over the next three years to enable it to provide legal services on a wider range of domestic and international finance legislation.

This year the unit will also focus on developing Treasury-specific policy and procedures regarding the Promotion of Access to Information Act (2 of 2000). The Act requires that organisations set out policies and procedures regarding access to their documents and records. National Treasury policy and procedures that set the rules and provide the framework for access to information will be implemented through an appropriately designed document-management system, according to the National Archives Act (43 of 1996). The documentation system will facilitate documentation tracking and recall.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets: Programme 1 Administration

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

Subprogramme	Output	Measure/Indicator	2003/04 Target/ Milestone	2004/05 Target/ Milestone	2005/06 Target Milestone
Parliamentary	A procedurally sound and politically astute Parliamentary Unit	Achieving a proactive relationship with Parliament	Develop Unit's awareness of its role and relationship with Parliament	Unit providing support to new members of Parliament in developing relationship with National Treasury	Proactive support established
	Extensive engagement with the Legislature on the budget reform processes, with specific reference to the Constitutional requirement for a process to deal with money bills	The number of dialogue/meetings held between the National Treasury and Parliament on the budget reform processes, with specific reference to the Constitutional requirement for legislative powers and processes to amend money bills	Facilitate throughout 2003 as the process develops	Legislation that facilitates amendment to money bills promulgated	Monitoring feedback from all role players for evaluation of Act
	Monitoring and facilitating promulgation of financial legislation and policies that are presented to the Legislature	Monitoring the passage of legislation from drafting to enactment	Monitoring and facilitating promulgation of identified financial legislation and policies	Monitoring and facilitating promulgation of the Financial Services Bill (establishing a single financial Regulator) and the Accounting Profession Bill	Monitoring and facilitating promulgation of identified financial legislation and policies
	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	100% satisfaction	100% satisfaction

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

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
Corporate Services	Full compliance with PFMA and full implementation of procurement reform	Unqualified audit	31 July 2003	31 July 2004	31 July 2005
		% compliance with new procurement programme	100% with new procurement programme by 30 June 2003		
	Implementation of transformation programme through restructuring and enhanced HR systems	% of policies and procedures finalised	75 % policies and procedures finalised by September 2003	100% of policies and procedures finalised by 31 March 2005	Develop new policies and procedures that arise
	Improve leverage of IT investment	% implementation of new & updated IT systems	Develop new IT strategic plan and technical redesign of IT systems 100% by 31 October 2003	Implementation of technical redesign 100% by 30 June 2004	Implementation of paperless and completely mobile environment 100% by 30 June 2005
	Internal and external communication programme and new corporate image	% increase in visits to the Intranet (staff) and National Treasury website (public)	Redesign of Internet and Intranet sites 100 % by 31 October 2003	Implementation of mobile-device access to Internet and Intranet sites 100% by 30 June 2004	Interactive Internet and Intranet sites 100% by 30 June 2005
	Diverse legal and legislative services	Meet divisional legal services needs in terms of time and quality	Throughout 2003 as required by divisions	Throughout 2004 as required by divisions	Throughout 2005 as required by divisions
		Draft Bills of quality introduced on time	As determined by the relevant divisions	As determined by the relevant divisions	As determined by the relevant divisions

RESOURCE PLAN

Expenditure estimates

Table 2: Administration

Subprogramme		Medium-term expenditure estimate		
	Adjusted appropriation			
R thousand	**2002/03**	**2003/04**	**2004/05**	**2005/06**
Minister[1]	691	746	791	835
Deputy Minister[2]	511	552	585	617
Management	8 585	8 088	8 484	9 055
Corporate Services	108 492	92 863	88 598	94 843
Sector Education and Training Authority	126	133	140	140
Capital Works	–	–	–	–
Total	**118 405**	**102 382**	**98 598**	**105 490**
Change to 2002 Budget Estimate	40 889	19 704	**10 834**	

[1] Payable as from 1 April 2002. Salary: R552 984. Car allowance: R138 246.

[2] Payable as from 1 April 2002. Salary: R408 600. Car allowance: R102 150.

Economic classification				
Current	93 414	91 888	91 000	95 881
Personnel	36 397	43 362	40 655	42 650
Transfer payments	126	133	140	140
Other current	56 891	48 393	50 205	53 091
Capital	24 991	10 494	7 598	9 609
Transfer payments	–	–	–	–
Acquisition of capital assets	24 991	10 494	7 598	9 609
Total	**118 405**	**102 382**	**98 598**	**105 490**

Standard items of expenditure	36 397	43 362	40 655	42 650
Administrative	12 957	15 937	16 710	17 775
Inventories	2 452	2 522	2 478	2 585
Equipment	25 653	6 444	3 375	5 720
Land and buildings	–	4 800	5 100	4 800
Professional and special services	40 820	29 184	30 140	31 820
Transfer payments	126	133	140	140
Miscellaneous	–	–	–	–
Total	**118 405**	**102 382**	**98 598**	**105 490**

Transfer payments per subprogramme				
Sector Education and Training Authority				
Finance, Accounting, Management, Consulting and Other Financial Services Sector Education and Training Authority	126	133	140	140
Total	**126**	**133**	**140**	**140**

Expenditure trends

Expenditure on the programme falls from a high of R118,4 million in 2002/03 to R98,6 million in 2004/05, before rising to R105,5 million in 2005/06. The trend reflects the rise in spending owing to the merger and restructuring of the National Treasury as well as once-off costs owing to the occupation and renovation of the 40 Church Square building. Renovation of the 240 Vermeulen Street building is expected to be completed this year, after which programme expenditure declines into the outer years of the MTEF.

It is envisaged that, in support of the National Treasury's policy agenda for financial and fiscal reform, funds will be required to assist in passing and implementing significant pieces of legislation. These include the Municipal Finance Management Bill, the Financial and Fiscal Commission Amendment Bill, and the Money Bills Amendment Procedure Bill. Proposed Constitutional amendments to ensure appropriate interventions in municipalities that are faced with financial emergencies will be a major legislative item over the medium term. These needs have resulted in the creation of a legal budget of about R4 million.

The enhanced structure of the Office of the Director General will necessitate increased funding on the *Management* subprogramme. It is expected that these costs will be tabled in the Appropriations Estimate later this year once the revised structure has been costed and approved.

PROGRAMME 2: ECONOMIC PLANNING AND BUDGET MANAGEMENT

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

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

Organised into four divisions, the programme spans considerable responsibilities. At the hub of Government business, divisional teams are output driven and committed to hard work, tight deadlines and high professional standards.

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

Policy Developments

Budget Office

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

A key element of the budget-reform programme is increased political oversight over the annual budget process. The increased focus by the Minister's Committee on the Budget facilitates a more detailed discussion of budget priorities by Cabinet at its mid-year Lekgotla.

Last year, Parliament created a new committee – the Joint Budget Committee – tasked exclusively with dealing with the Budget. The Committee will hold hearings after the tabling of the Medium Term Budget Policy Statement in October and the tabling of the main Budget in February each year. These hearings will provide a key participatory forum for non-governmental organisations, government departments, trade unions, academics and subject experts to make an enhanced impact on eventual Budget allocations.

The National Treasury will continue to work in partnership with national departments, enhancing and strengthening the measurable objectives, output measures and service delivery target information as set out in the annual *Estimates of National Expenditure*. The publication of measurable objectives for each programme, in line with the Public Finance Management Act (1 of 1999) (PFMA), reflects a commitment to improved service delivery, greater transparency and increased accountability.

On the fiscal front, the expansionary fiscal stance first signalled in the 2001 Budget is maintained for the 2003 MTEF, with the deficit widening to 2,4 per cent of GDP next year, declining to 2,3 per cent in 2005/06.

This provides for real annual growth of 4,5 per cent in national and provincial non-interest expenditure to meet Government's expenditure priorities. It also provides for further cuts in taxes to lower- and middle-income earners, and for significant additions to infrastructure development.

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

A key focus in this respect is the integration of databases that draw on fiscal policy information. This will allow the National Treasury to align its fiscal and macroeconomic models, strengthening analysis and understanding of the linkages between the fiscal framework and key economic aggregates and improving macroeconomic forecasts.

Strengthening fiscal analysis capacity is in line with international trends and requirements for prudent public financial management. Following the Asian financial crisis in 1998, multilateral institutions and governments around the world agreed to implemement a system of reviews of performance (Reports on Standard Codes or ROSCs) by governments on a broad range of policy issues related to economic management (fiscal and monetary policy, governance (banking, supervision, corporate governance) and transparency (data dissemination and fiscal transparency). South Africa is one of a few countries to have completed all 11 of the ROSCs instituted by the International Monetary Fund and the World Bank.

Increased spending on infrastructure investment has a significant impact on economic growth and the expansion of service delivery. Over the 2003 MTEF period, capital spending averages 5,7 per cent of GDP, with large investments in the non-financial public enterprises and extra-budgetary institutions and strong growth in public-private partnership expenditure supporting the step up in national, provincial and municipal investment.

The new infrastructure finance focus will facilitate the development of criteria to assess infrastructure investments, supporting departments and provinces in accelerating the pace of delivery and providing a framework for the monitoring and evaluation of infrastructure projects.

The focus supports the increasing workload of the *Public Private Partnership* (PPP) unit. PPP facilitated infrastructure expenditure is projected to rise substantially over the 2003 MTEF period. Key projects include the Gauteng Rapid Rail Link, the Dube Trade Port (including the relocation of Durban International Airport), the Department of Trade and Industry-serviced accommodation project, the Department of Education-serviced accommodation project, Chapman's Peak Toll Road, hospital co-location projects in the Eastern Cape and Western Cape, tourism projects, fleet-management projects, the Home Affairs National Identification System, and the social-pension administration system. The PPP unit has about 50 projects in the pipeline at any given time.

The National Treasury also emphasises improving the link between policy, budgeting and personnel management, given the extent of public resources directed towards personnel expenditure. Over the next year, the *Budget Office* will complete the implementation of a framework for the remuneration of public entities. The team will work closely with the Department of Public Service and Administration and others, to develop appropriate pay progression, career pathing and performance-based incentives for various sectors; notably health, education and policing.

In the public finance statistics arena, priority will be given to developing and implementing a new economic classification for the Budget and a corresponding new Chart of Accounts for the financial systems of government. At present, the economic classification is based on the old "standard-item" approach, which retains outdated classifications such as that for "stores and livestock". The move towards a new Chart of Accounts, prepared on the basis of internationally accepted Government Finance Statistics (GFS) classification principles, advances South Africa towards compliance with the International Monetary Fund's Special Data Dissemination Standards. This is a first step in the process of preparing for a move to accrual accounting.

Budgeting is not only about managing domestic resources – it also involves coordination of donor assistance programmes. Since 1994, South Africa has benefited from an increasing flow of foreign grants and technical cooperation. This now includes some 30 international framework co-operation agreemnts, which, since 2001/02, have contributed approximately R1,6 billion (or 0,5 per cent of consolidated revenue) annually.

Over the next three years, development cooperation will focus on strengthening the alignment of official development assistance with government spending. Key considerations are the optimal utilisation of limited resources in support of South Africa's development priorities; ensuring long-term sustainability beyond the phase of foreign support and strengthened South African ownership of foreign assistance programmes and projects.

South Africa receives almost R800 million a year in international development assistance through the Reconstruction and Development Programme Fund. A further R800 million a year is managed directly by our donor partners. Over the past year, the *International Development Cooperation* unit within the *Budget Office* facilitated the negotiation of new development cooperation strategies with the European Union, the United Nations Development Programme, Germany, France, Ireland, Belgium, Denmark and Flanders. The cooperation strategy with Canada was extended for a further five years. These strategies were concluded in line with South Africa's development priorities and strategies. During the year, the team also finalised development of systems to monitor donor-assisted projects, improving National Treasury oversight and management of overseas development assistance to South Africa.

Public Finance

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

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

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

Transforming public sector financial management is a key objective of National Treasury. The *Public Finance* teams facilitate implementation of the PFMA and Treasury Regulations within national departments, public entities and constitutional institutions, providing and overseeing appropriate systems for monitoring and managing expenditure.

Reforms introduced under the PFMA place the National Treasury spending teams at the centre of policy and budgetary debate across Government. Expenditure monitoring remains a key activity. However, teams will increasingly shift their focus towards monitoring service delivery and engaging and analysing key sectoral policies that drive spending and service delivery in support of sustainable growth and development.

Over the next three years, a key focus of the *Social Services* team will remain the development of appropriate budgets and financing mechanisms for the social services, with significant attention given to those sectors where national and provincial governments have concurrent responsibilities – health, education and social development. This will entail deepening assessments of sectoral trends and needs and enhanced interaction with national departments in the budget process.

The team will also support intergovernmental processes and committees (particularly the sectoral joint technical committee processes better known as “4x4s”) to facilitate deliberations on the division of revenue between the spheres of government and to guide and assess provincial budget allocations. A key element of the latter is assistance to the *Intergovernmental Relations* section in reviewing the provincial equitable share formula in the light of changing conditions and new information, in particular the release of the 2001 Census results.

Financing and budgets for a range of service delivery areas will receive priority attention. In the health sector, the team will assist in developing the funding framework for the Enhanced Response to HIV/Aids and will examine the fiscal implications of the division of responsibilities for primary care between provincial and local government. Refining strategies and financing for the recruitment, retention and appropriate distribution of scarce health professionals is a further focus.

The *Social Services* team plays a key policy role in respect of the reconfiguration of health grants aimed at equity in tertiary health services. The tertiary services grant amounts to R4 billion in 2003/04, increasing to R4,5 billion in 2005/06. The training and development grant, which increases to R1,5 billion over the next three years, has a new component for employing more registrars and medical specialist trainers in those provinces with the most severe shortage of medical specialists.

Eighteen hospitals are earmarked for major upgrading of infrastructure under the Hospital Revitalisation Grant. Funding for the grant will rise to R1 billion in 2005/06. A new component of the grant, introduced this year, is aimed at improving systems for the upgrading and management of medical equipment.

Funding for the integrated nutrition programme almost doubles over the next three years. In addition to extending the coverage of the programme to Grade R pupils, the increase will also ensure provision of standard menus across a larger number of schools. The transfer of the Primary School Nutrition Programme from the health to the education department will require adjustments in budgets and financing mechanisms.

In higher education, the *Social Services* section will cooperate with the national department in implementing budgets for restructuring the sector. R800 million was allocated for this purpose over the next three years and will be directed towards recapitalisation of undercapitalised institutions, personnel retrenchment costs, harmonising systems, facilitating the process and for physical infrastructure. Refining and introducing a new funding formula for higher education will also be supported.

In provincial and school education the implications of the national department’s *Review of the Financing, Resourcing and Costs of Education in Public Schools* for budgets and funding mechanisms require elaboration. Financing implications of the restructuring of the further education and training sector, the extension of access to early childhood development and the development of policy for learners with special needs will be developed further.

The fiscal management of the rapid expansion in access to social grants, and the extension of the child support grant to older children, will be a high priority. At the same time the management and funding of improved service delivery, and addressing the fiscal implications of the envisaged shift of responsibility for administration and delivery of grants to the national sphere will be dealt with. Conditional grant funding of food relief (a new mechanism in 2003), financial implications of key legislation (such as the Child Justice Bill) and the review of the special poverty-relief allocation will also be on the agenda.

One of Government's biggest challenges is to accelerate employment creation in the economy. Together with the *Macroeconomics Policy* unit, the *Social Services* team supports the Department of Labour in the development of an integrated employment strategy and in the planning and preparation for the Growth and Development Summit later this year. Further development of the National Skills Development Strategy is being supported. The team will also focus on assisting the Department of Science and Technology to implement the National Research and Development Strategy, backed by significant increases in allocations over the MTEF. Implementation of the National Language Policy as approved by Cabinet will also receive attention.

Government recognises the importance of accelerating land reform delivery for reducing rural poverty and ensuring broad-based economic participation, particularly of black farmers. The 2003 Budget adds a further R1,9 billion in support of land restitution and land reform, specifically the Land Redistribution for Agricultural Development (LRAD) programme. Over the next three years, the *Economic Services* team will work closely with the Departments of Land Affairs and Agriculture to evaluate the LRAD programme, probing its fiscal impact and future budgetary implications, particularly at the provincial level.

Economic Services plans to step up its engagement with the Department of Minerals and Energy on the establishment of regional electricity distributors. The Electricity Distribution Industry Holdings Company is allocated R150 million over the 2003 MTEF period to transform the Eskom and municipal electricity distribution systems into six regional electricity distributors. Of key concern, however, is the impact of the restructuring on local government finances and the proposed ownership and corporate governance arrangements of the new regional distributors.

The team also intends to strengthen its interaction with the Transport Department. In particular, research and analysis on public transport infrastructure will assess the costs of implementing and maintaining infrastructure investment as well as rates of return and long-term economic and environmental impact. This work will complement continued engagement on the appropriate targeting and level of commuter subsidies for the rail and bus systems, which place continued pressure on the fiscus.

Water Affairs and Forestry receives a further R1 billion over the 2003 MTEF period for the community water and sanitation programme and for the refurbishment of water schemes, ahead of their transfer to local authorities. Operated by the former homelands administration, these schemes are in disrepair and show poor revenue collection from water users. Local authorities are reluctant to assume responsibility for the schemes unless they are refurbished and recapitalised.

The Department of Environmental Affairs and Tourism is also concerned about infrastructure institutional arrangements. During the next year, the National Treasury and this department will collaborate to analyse the institutional arrangements of fishing harbours regarding their state of infrastructure, level of usage and user fee structure, and their possible transfer to local authorities.

Over the next three years, the *Economic Services* team intends to establish a regulation and tariff unit to development a common approach to structural regulation issues, in particular tariff approvals that impact on regulated and administered prices. The team will work closely with the *Macroeconomic Policy* unit in this regard.

The *Protection Services* team is instrumental in the policy and funding debates and activities of the integrated justice sector cluster review team. The team – comprising the Departments of Safety and Security, Justice and Constitutional Development, Correctional Services and the National Treasury – is focused on balancing and coordinating spending, and ensuring quality service delivery in the integrated justice system.

Improved synergy within the criminal justice sector remains a key priority in preparing medium-term expenditure plans. The 2003 Budget gives priority to improving case management through information systems and cooperation between the criminal justice system departments. Substantial additional funding goes to the management of courts, system improvements in the Department of Justice and Constitutional Development and further expansion of police personnel, focusing on sector policing. Personnel of the South African Police Service will increase from 118 818 in 2000 to a projected 155 260 by 2006.

Re-engineering court and case management remains a key priority for the Department of Justice and Constitutional Development and the sector over the next three years. The Automated Fingerprint Identification System has been successfully introduced and has significantly reduced search times in managing the records of criminals. Notable progress has also been made in reducing the outstanding cases on magistrates' court rolls through the introduction of Saturday and additional courts, and the Durban Court Processes Project has successfully demonstrated the potential for reducing the incidence of lost and late dockets. Key projects over the remainder of the MTEF period will include improved expenditure management, a public-private partnership for the administration of monies held in trust by the Department of Justice, further investment in court security and improvements to court buildings.

The National Treasury is working closely with the Department of Justice on issues related to constitutional bodies. At present, funds are voted to constitutional bodies on the Justice and Constitutional Development vote. Given the Constitutional independence of these bodies, analysis and consultation is needed to address the appropriate location of their budget allocations and the level of funding.

The Safety and Security budget is a significant component of national expenditure, rising to R22 billion this financial year. The 2003 Budget provides additional funds to expand personnel. The employment of civilian personnel will alleviate the administrative burden and enable functional police members to focus on crime prevention. This contributes to the effectiveness of the sector policing strategy, which entails policing in manageable areas to increase police visibility, especially in priority crime areas.

The *Protection Services* team is actively engaging the Department of Correctional Services on the construction of four new prisons in 2003, scheduled for completion in 2005/06. Substantive work is also in progress on a lower-cost prison design, new approaches to prison management and a reorientation of Correctional Services towards effective rehabilitation and restorative justice, alongside this department's responsibility for secure custody of offenders. Together with other justice, crime prevention and security-cluster departments, efforts to reduce the numbers of awaiting-trial and juvenile prisoners have been prioritised.

The strategic defence procurement programme, aimed at modernising critical equipment of the South African National Defence Force, enters its fourth year in 2003/04 and will shortly see the delivery of the first tranches of light utility helicopters and trainer aircraft and the first of four corvettes. Over the next three years, the Department of Defence and the National Treasury will monitor the expenditure trends of the procurement programme, manage the funding needs for peace-keeping operations and assess the short-, medium- and long-term human resource, capital and maintenance expenditure needs.

The *Administrative Services* team engages actively with the Departments of Home Affairs and Foreign Affairs, in particular. Recognising the need to raise its medium-term baseline allocation to more sustainable levels, the 2003 Budget allocates a further R669 million to the Department of Home Affairs over the next three years. These funds are directed towards expanding its personnel establishment, improving equipment and information systems, and stepping up maintenance and rehabilitation of offices. Funds are set aside for an Automatic Fingerprint Identification System and work is in progress on a public-private partnership for the HANIS "smart identity card" project.

This year, the National Treasury and Home Affairs are engaging in a joint research project to address the issue of illegal immigration. The emphasis of the research will be the associated social concerns, xenophobia, increased crime, poverty and the cost burden to the country, particularly from the fiscal perspective. The venture will examine various issues of illegal immigration such as a determination of the number of illegal foreigners, whether they are employed or unemployed, and distinguishing between different types of illegal foreigners. This will assist in informing immigration policy as well as labour market policy. It will be a useful planning tool, providing insight into what measures should be adopted with regard to removal and prevention of illegal immigrants.

The Department of Foreign Affairs is a key player and driver of the New Partnership for Africa's Development (Nepad). The Presidential initiative is focused on peace and security in Africa, good governance, human rights and sound economic management as conditions for sustainable development. It is at the centre of South Africa's engagement with African countries and the wider international community.

The 2003 Budget accommodates the phased establishment of 16 new missions in African countries, contributions to the funding of the African Union and the Nepad Secretariat and increased contributions to regional development through the African Renaissance Fund, which is administered by the Department of Foreign Affairs. The National Treasury has worked closely with that department regarding the affordability and sustainability of expenditure trends on the Foreign Affairs vote. A more stable budget trend is anticipated, following the recent strengthening of the rand.

The National Treasury team is working closely with the Department of Provincial and Local Government to finalise the Property Rates Bill this year. The Bill will have a significant impact on the expenditure of the Department of Public Works. In anticipation of this increased expenditure on leases and rates and taxes, the 2003 Budget increased the allocation to Public Works by R200 million for 2003/04.

The team will also become more directly involved in the establishment of the State Property Management Agency. The Agency will be used to manage the Department of Public Works's property portfolio and will be set up as a public entity, once proven viable.

There is a growing acceptance of a programme and project management approach to enhance the capacity of Government to address reconstruction and transformation. In reaching our developmental objective, technical assistance will focus on strengthening management capacity in priority programmes in government to deliver on basic needs and services.

Co-funded by the European Union, the *Technical Assistance* unit supports the work of the *Public Finance* teams. Over the past year, the unit has addressed blockages in key projects such as the funding of community projects, social housing, partnerships in the public health sector and reviewing infrastructure delivery. Over the next three years, the unit will focus on facilitating the implementation of programmes especially in the Social Services Cluster and the Crime Prevention and Justice Cluster, promoting effective management and good governance.

Intergovernmental Relations

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

Approximately 60 per cent of expenditure on the main Budget takes the form of transfers to provincial and local governments, placing them at the forefront of social and basic service delivery.

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

The 2003 Budget reflects the continuing evolution of our intergovernmental system. Over the past few years, the national and provincial treasuries have co-operated to introduce and implement financial management and budgeting reforms underpinned by the PFMA. These efforts are now bearing fruit. Provincial finances are stabilising. Greater transparency and improved accountability is expected to contribute towards improved service delivery at the provincial level.

The Municipal Finance Management Bill, which is close to being adopted by the National Assembly, is a key pillar in the overall public finance architecture of Government. The legislation facilitates the extension and deepening of financial management and budget reforms at the local government level, similar to reforms implemented at the national and provincial level under the PFMA. Implementation of the Act, to be completed by mid-2007, will take cognisance of the uneven capacities of municipalities to implement financial reforms.

Much of the team's time is taken up in developing good, constructive working relationships with the nine provincial treasuries that guide the interactions of Team Finance – the Minister of Finance and his provincial colleagues. Ensuring constructive debate at the technical level in the Technical Committee for Finance and the sectoral technical committees ("4x4s" and "10x10s") facilitates more robust interaction at political forums such as the Budget Council, Budget Forum and the sectoral MinMECs in the health, education, social development, local government and housing sectors. Over the next three years, the provincial team will engage with the agriculture and transport sectors to establish intergovernmental fora and technical committees in these sectors.

The division is responsible for overseeing the equitable share and conditional grants to provinces and municipalities. It also implements Programme 6 – *Provincial and Local Government transfers*. The team will ensure the accurate and timely transfer of the R142 billion equitable share to provincial government over the 2003 MTEF period. It is also responsible for developing policy on fiscal transfers to local government, although the Department of Provincial and Local Government is responsible for the administration of the transfers. An important focus of the team is to monitor compliance with the provisions of the PFMA and the Division of Revenue Act that relate to fiscal transfers, specifically to conditional grants administered by the National Treasury.

The 2003 division of revenue reinforces the shift in the division of nationally raised revenue towards provinces and local government. Over the next three years, national transfers to provinces will increase by 6,1 per cent in real terms and those to local government will rise by 12,2 per cent.

Changes to the provincial share provide for increases in social grants and the extension of the child support grant, improvements to schooling and health services and further investments in roads and other infrastructure. Increases to the local government share provide further support for free basic services and the extension of infrastructure to formerly unserviced neighbourhoods.

More specifically, the 2003 MTEF allocations provide for R69,3 billion more to provinces over the 2002 Budget baseline. This raises the provincial share from 56 per cent to 57,6 per cent over the next three years.

The equitable share comprises 89,5 per cent of national transfers to provinces and rises by 5 per cent in real terms over the MTEF. Unlike the case for conditional grants – in which spending is determined by national government and prescribed through the Division of Revenue Act – provinces have discretion over how they allocate the equitable share among the functions they perform. Increased equitable share allocations give provinces greater flexibility in determining budgets and give effect to national and provincial priorities.

The equitable share is divided among provinces by means of an objective redistributive formula, the data and weights of which are reviewed annually, taking into account recommendations of the Financial and Fiscal Commission (FFC). The present structure of the formula, a product of collaboration between National Treasury and the FFC, was adopted in 1998/99. For demographic data, the formula currently uses the 1996 Census data. The publication this year of the 2001 Census allows the *Intergovernmental* team to undertake a comprehensive review of the equitable share. The structure of the formula, component weights and veracity of data will be investigated through a process that includes extensive consultation with sector departments at provincial and national level. The availability of the Census 2001 demographic data will be central to this process, and the revised equitable share will inform the 2004 Budget.

In addition to the equitable share, conditional grants remain an important part of the intergovernmental transfer system, providing for national priorities in provincial budgets, compensating provinces for cross-boundary flows, for specialised services and to support transition and capacity building.

Conditional grants make up 10 per cent of total national transfers. The current conditional grant system has been shaped by reforms introduced through the Division of Revenue Act since 2000. These reforms, which have aligned the management of conditional grants with PFMA, have contributed to clarifying accountability between spheres, resulting in improved use of the grants to enhance service delivery. The new amendment of PFMA will include the key requirements for the management of conditional grants. Further reforms over the next few years will see a consolidation of grants to the provincial sphere in particular.

For the first time this year a breakdown of national transfers to local government, by municipality, was published in the Division of Revenue Bill on Budget day, four months ahead of the municipal financial year. Early publication of municipal allocations from national government will enable municipalities to incorporate these allocations into their budgets, to improve planning and budgeting and enhancing delivery. Further reforms to the Division of Revenue Act include enhancement of the reporting requirements in respect of non-financial as well as financial information on conditional grants.

In this year's Budget, the most significant change to the conditional grant allocations to provinces is the introduction of the Child Support Extension Grant, which provides funding to extend the child support grant to children until they are 14 years old. Currently, the grant is accessible to children until they are seven years old. Extension of the grant will be phased in over the next three years.

While social assistance currently is a provincial responsibility, Cabinet has agreed, in principle, to a consolidation of this function into a new agency, to be overseen by the national Department of Social Development. The *Intergovernmental* team is a critical player in the detailed planning and preparation for this change, ensuring successful implementation over the next few years. In particular, the team will advise on how the Division of Revenue Bill and the equitable share should be adapted to take account of the shift.

The Provincial Infrastructure Grant, introduced in the 2000 Budget to assist provinces to step up their spending on infrastructure, rises to R3,1 billion in 2005/06. After a period of sluggish performance, provinces are increasing their capital spending rapidly. Over the next three years, the *Intergovernmental* team intends enhancing its capacity to monitor and track provincial infrastructure spending and deliverables in collaboration with the *Budget Office*.

The *2003 Intergovernmental Fiscal Review*, published in April this year, is an accessible resource on provincial and municipal budgets and service delivery issues. It provides a consolidated review of how the nine provinces and 284 municipalities fund the delivery of social and basic services to our communities.

The *2003 Review* provides information on the 2003 provincial budgets tabled by MECs of Finance between 4 and 18 March this year and the 2002/03 municipal budgets. It accounts for public expenditure for the past three years, that is 1999/00 to 2001/02. It also spells out in more detail provincial and local government spending plans, taking the focus on service delivery one step forward and enabling users to compare provincial and municipal service delivery standards and achievements. The wealth of information is aimed at promoting better accountability by providing valuable information to the public, elected officials, public servants and policy researchers in order to improve the quality and delivery of public services.

The provincial section of the division works closely with the *Budget Office* and the *PFMA* unit in the National Treasury to facilitate implementation of the PFMA and budget reforms in the provinces.

An exciting development is the provincial tabling of departmental strategic plans during March and April this year. These strategic and performance plans are based on uniform budget formats for each of the social services sectors. They will attempt to set uniform measurable objectives, performance indicators and targets for each budget programme and subprogramme. Key to this reform is ensuring that there is a close relationship between strategic plans and budget allocations, so that, in reporting, departments can reflect what they have delivered with the resources allocated to them.

Over the next three years, reforms aim to strengthen alignment between departmental strategic plans, budgets, financial statements and annual reports. Further, the team will review the provincial equitable share formula and all provincial conditional grants.

In local government, substantial resources are made available in the 2003 Budget to provide for poverty relief, to extend infrastructure delivery and further strengthen the local government system through skills development and capacity building. National transfers to local government increase from R8,8 billion in 2002/03 to R14,6 billion in 2005/06. This increases the local government share of nationally-raised revenue from 3,6 per cent in 2002/03 to 4,4 per cent by 2005/06.

The bulk of the additional resources will be targeted at the provision of free basic services, the extension of services to areas not presently serviced and further infrastructure investment. In total, R4,1 billion over the 2003 MTEF will be made available for water, electricity, refuse removal and sanitation as part of Government's commitment to provide free basic services to households that cannot afford them.

Infrastructure grants to municipalities remain a key instrument in urban renewal and rural development. An additional R1,8 billion over the next three years is allocated for infrastructure delivery, of which R1 billion will be earmarked for labour-based infrastructure investments to boost employment creation at a local level.

An additional R300 million over this MTEF is set aside for capacity building. The *Intergovernmental* team worked hard to ensure the adoption of an interim framework for aligning the capacity-building grant allocations into a single grant by 2005/06. Over the next three years, capacity-building grants to municipalities that flow through provinces will be incorporated into the Municipal Systems Improvement Grant in 2005/06. This translates into an additional R233 million to the local sphere, and accounts for the sharp increase in the value of the grant in 2005/06. Increases will be focused on financial management and reform, and on improving strategic management and service delivery skills.

The process of reforming municipal financial management systems and refocusing municipal budget priorities is well under way. Thus far, reforms that are being undertaken in pilot municipalities continue to demonstrate that the budget process and preparation of functional budgets is instrumental to the reforming of management systems generally. The reforms within pilot municipalities are being supported by a grant – the Finance Management Grant – from national government. To date 39 municipalities receive the grant. Noteworthy successes have been achieved in the pilots with the tabling of three-year budgets and the appointment of municipal managers and chief financial officers.

The most effective tool for reform has been the placement of international advisers working shoulder-to-shoulder with municipal teams. The next important phase of this programme will see up to 30 municipal financial advisers attached to pilots for a period of two years. These advisers will continue to implement the reforms, while refining them through systematic feedback. They will also provide assistance with rolling-out the reforms to other municipalities in their region. The network of pilot municipalities and international advisers will serve as valuable infrastructure and a resource for the roll-out and implementation of the Municipal Finance Management Act as a whole. New pilots are to be added during the 2003/04 financial year, which will take the total to more than 60 pilots.

Unlike provinces, local governments have significant revenue-raising powers. However, the high proportion of poor households in some municipalities presents serious challenges to the efforts of local government to realise their revenue-raising potential.

Over the next three years, the *Intergovernmental* team will work closely with the Department of Provincial and Local Government to broaden the revenue base of local government. Review of the local government fiscal framework, commencing this year, will entail a range of reforms to accommodate shifts in powers, functions and fiscal capacity. The review will include analysis of the equitable-share formula, restructuring of the electricity-distribution industry and other service sectors, and implementation of the Municipal Finance Management Act and other legislative reforms to financial management, such as the borrowing powers of municipalities.

Economic Policy and International Financial Relations

The *Economic Policy and International Financial Relations* division undertakes policy analysis and engages in consultation and collaborative work in the areas of: macroeconomics, international economics, taxation and financial regulation.

The *Macroeconomic Policy* unit engages in research and policy analysis that contribute towards enhancing sustainable growth, job creation, skills development and empowerment. The primary responsibility of the unit is the production of economic forecasts, in particular on growth, external account and inflation. These forecasts form the foundation for the Budget framework.

The unit will continue to strengthen the inflation-targeting regime in collaboration with the South African Reserve Bank. Over the past year, events led to engagement in a number of activities aimed at analysing pricing behaviour in South Africa. The first involved a joint exercise with the Departments of Agriculture and Trade and Industry to identify sources of the recent price hikes in the food and agricultural sectors. The analysis was undertaken in support of possible policy interventions in these sectors that would support price stability and, in particular, inflation targeting. Nedlac engagement on welfare responses to the food price hikes was informed by this work.

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

Job creation tops the Government's priority agenda for the 2003 MTEF. The *Macroeconomic Policy* team plays a key role in formulating and coordinating appropriate growth-enhancing policies that contribute towards strengthening employment creation. Over the next three years, work will focus on modelling and analysis that assesses the impact of interest rate and exchange rate variability as well as that of microeconomic reform on South Africa's growth prospects.

Further work will be undertaken in the area of policy design to promote savings by both the household and the corporate sectors. The latter complements and builds on the team's engagement in the Financial Sector Summit last year. The Summit between Government, business and labour deliberated on strategies that will improve delivery of financial services, enhancing national savings and direct them to development purposes. The Summit declared that all South Africans should have access to affordable and convenient payments and savings facilities and that the development of institutions that provide micro-credit to the poorest households should be supported. These intentions are tied in with policy initiatives across Government to raise the domestic savings rate, providing a stable source of financing investment into the future.

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

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

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

In the 2003 Budget, the Government continues to grant substantial tax relief to individuals. In addition, sound structural changes since 1994 and strong revenue growth create fiscal space for introducing tax-driven stimulus measures that seek to grow the tax base and create employment opportunities.

Through improved revenue estimation modelling and on the back of robust revenue collections, the *Tax Policy* unit has worked on designing ongoing personal income tax relief of R13,3 billion, increasing the minimum tax threshold further and adjusting the tax brackets to benefit mainly low- and middle-income taxpayers for the 2003/04 financial year.

Over the next three years, the team will focus on implementing the proposals set out in this year's Budget. Key among these is the review of the tax treatment of retirement savings. This year a second detailed discussion document on the retirement tax reform proposals and the underlying policy considerations will be released. The process will encourage open consultation with various stakeholders so that the final legislation represents a fully deliberated product. Mindful of a range of stakeholder concerns and drawing on the findings of the responsible task team, the 2003 tax proposals suggested that the retirement fund tax rate should be reduced from 25 per cent to 18 per cent.

Internationally accepted taxation principles and administrative concerns inform the proposed package of domestic investment stimuli. Key among these are the retention of the accelerated depreciation arrangements for manufacturing assets, previously introduced as a temporary measure and a double deduction for the first R20 000 of costs incurred in the start-up of new businesses.

Many urban areas in South Africa suffer from inadequate infrastructure maintenance and environmental decay. Urban renewal requires greater business investment in the regeneration of inner-city areas. With this in mind, the 2003 Budget proposes that investment in the refurbishment or the construction of buildings in certain urban areas receives special accelerated depreciation treatment. A complementary proposal extends tax advantages to public benefit organisations that provide affordable housing to low-income households in underdeveloped urban areas, as part of a more comprehensive broadening of the list of activities for tax-deductible donations.

The current system of taxing foreign dividends has the unintended effect of discouraging dividend inflows. In order to eliminate this disincentive, the tax on foreign dividends will be removed where a South African taxpayer has a meaningful interest in the foreign subsidiary paying the dividend.

On the indirect tax side, there is a temporary elimination of the general fuel levy between leaded and unleaded petrol to allow the industry scope to increase its clean fuel production capacity. And mindful of the effect that increases in the dollar-denominated international crude oil price has on domestic fuel prices, the 2003 Budget recommends that the fuel taxes be adjusted by less than inflation.

A key proposal this year is the introduction of an "environmental levy" on plastic bags, in support of the "polluter pays" principle. Some of the revenues collected will be earmarked for the recycling of plastic bags. The team intends to release a discussion document on Environmental Fiscal Reform (Environmental Taxes) in South Africa in July 2003. Complementary research will review the VAT treatment of appropriations or grants to public entities and public enterprises by June 2003, ready for incorporation in the second Taxation Amendment Bill by the end of October 2003.

The tax trump card in the 2003 Budget most certainly is the joint foreign amnesty, in relation to both exchange controls and the Income Tax Act. The window period for filing for amnesty relief will run from 1 June 2003 to 30 November 2003. The purpose of the amnesty is not to raise revenue. It is, instead, to allow past transgressions of the law to be dealt with, while improving disclosure of foreign assets and income. It will permit the repatriation of capital by those persons who desire to bring funds back into South Africa, but who fear the consequences of past illegal acts.

The *Tax Policy* unit is working hard on the draft Mineral Royalty Bill that the Minister of Finance will introduce in the Parliamentary Portfolio Committee on Finance and the Portfolio Committee on Minerals and Energy Affairs this year. Presentations and hearings with stakeholders in the minerals industry will accompany the process.

The drafting of the Mineral Royalty Bill was preceded by a comprehensive international comparative analysis on the introduction of a mineral and hydrocarbon royalty regime in support of the Mineral and Petroleum Resources Development Act.

Finally, the *Tax Policy* unit, as Chair of the Southern African Development Community (SADC) Tax Subcommittee, will continue to play a leading role in delivering on regional tax coordination. A key driver for this process is the implementation of the "SADC Memorandum of Understanding on Taxation and Related Matters", which was signed in August 2002. This initiative will be reinforced by the incorporation of the memorandum of understanding in a binding SADC Finance and Investment Protocol that is due to be signed later this year. The coordination programme aims to identify and develop areas for cooperation in tax administration and policy and to build stable and efficient tax systems that will facilitate trade and investment, while securing regional tax bases. This work is being carried out in parallel with the macroeconomic convergence programme being undertaken by the *International Economics* unit.

The *Financial Sector Policy* unit (formerly the Financial Regulation unit) advises the Minister of Finance on the financial regulatory and supervisory policy issues and the regulatory architecture of the domestic financial system. The unit is also responsible for formulating the Government's financial sector policy; providing the legislative and regulatory framework required for its implementation; and influencing the international financial sector policy agenda in the areas of financial regulatory policy; banking development; financial services; financial markets and anti-money laundering.

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

Accordingly, the *Financial Sector Policy* unit fulfils its mandate through liaison with various supervisory authorities and organisations. It liaises with the South African Reserve Bank on matters relating to bank supervision, exchange control, financial stability and the National Payments System. It engages the Financial Services Board in its supervision of the non-banking financial services sector under the policy direction of the Minister of Finance. It addresses the Micro Finance Regulatory Council on micro-lending matters, and interacts with various financial-sector industry representative groups, such as the Banking Council of South Africa and the Life Offices Association. The unit also actively engages international organisations on anti-money laundering and the combating of terrorist financing. It also engages with regional organisations, such as the Common Monetary Area and the Committee of Insurance, Securities and Non-banking Financial Authorities, a subcommittee of SADC.

The *Financial Sector Policy* team represents the National Treasury on numerous committees. These include, the Policy Board for Financial Services and Regulation – in terms of the Policy Board for Financial Services and Regulation Act (41 of 1993) – which is a statutory advisory body that furnishes advice to the Minister on the financial services industry and the regulatory framework of the financial system; the Financial Markets Advisory Board – in terms of the Financial Markets Control Act (97 of 1989) – a statutory advisory board that furnishes advice to the Minister on issues that affect the financial markets; the Standing Committee for the Revision of the Banks Act (94 of 1990), a statutory advisory committee that furnishes advice to the Minister on amendments to the Banks Act (94 of 1990).

The National Treasury has recognised the importance of maintaining a high level of financial regulation and supervision to ensure that our financial system remains sound, robust and generally well regulated, and is not prone to major vulnerabilities that could endanger macroeconomic and financial stability.

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

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

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

International Economics continues to engage actively with multilateral institutions, including the International Monetary Fund, the World Bank, the G20, and the G24. Over the next three years, the team will strengthen its engagement, focusing on shaping the global development policy agenda to improve development policies for African economies, increase the level of aid flows, provide policy reform ideas for the international financial architecture, and shift the operations of the World Bank toward achievement of the Millennium Development Goals (MDGs). The latter is facilitated through Minister of Finance, Trevor Manuel's role as chair of the World Bank's Development Committee. In 2002, the Development Committee agreed to the elaboration of an implementation and monitoring framework for the achivement of the MDGs.

This will be developed further and made operational in the nexst three years, facilitating a much tighter link between the activities and major programmes of the Bretton Woods Institutions and the MDGs.

The capital account of the balance of payments is a key focus of the *International Economics* unit, with major projects being initiated in the areas of exchange control policy, prudential regulation of capital account risk, and the linkages between the capital account and monetary policy.

International Economics plays an important role in South Africa's relationship with other African countries. Key initiatives in the next three years include efforts to develop and implement the Nepad capital flows initiative, incorporating debt and development assistance issues, conceptualising the establishment of an African Central Bank, the ongoing reform of SADC institutions, and strengthening the Common Monetary Area.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 2 Economic Planning and Budget Management

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

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
Budget Office	Medium Term Budget Policy Statement including the budget framework and division of revenue	Produce within deadline	End October / early November	End October / early November	End October / early November
	Budget Review, appropriation legislation and Estimates of National Expenditure	Produced within deadline	Published on Budget day	Published on Budget day	Published on Budget day
	Public finance statistics	% compliance with the IMF Special Data Dissemination Standard i.r.o. timeous reporting of data in requisite format	85% compliance	90% compliance	95% compliance
		% coverage of general government statistics, including national and provincial government and public entities	10% incorporation of public entities into statistics	20% incorporation of public entities into statistics	40% incorporation of public entities into statistics
	Public-private partnership (PPP) agreements	No. of closed PPP deals	10 closed PPP deals	12 closed PPP deals	14 closed PPP deals
		Compliance with Treasury Regulation 16 on PPPs	Treasury Approval I – III provided	Treasury Approval I – III provided	Treasury Approval I – III provided
		Building provincial PPP capacity	2 provincial secondments to the PPP Unit	2 provincial secondments to the PPP Unit	2 provincial secondments to the PPP Unit
		No. of persons trained in respect of PPPs	200 persons trained	250 persons trained	300 persons trained

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
	International cooperation agreements	% alignment between Government and departmental priorities and donor assistance	80% + satisfaction between donor and beneficiary department (measured by customer assessment ratings)	80% + satisfaction between donor and beneficiary department (measured by customer assessment ratings)	80% + satisfaction between donor and beneficiary department (measured by customer assessment ratings)
		% compliance of donor agreements with the Overseas Development Assistance (OPA) Policy and Procedures manual	100% compliance	100% compliance	100% compliance
Public Finance	Analysis of and recommendations on sectoral and departmental financing and budgets	% rating by the MTEC on analysis of departmental budget and MTEC submissions	70% rating by the MTEC on analysis of departmental budget and MTEC submissions	75% rating by the MTEC on analysis of departmental budget and MTEC submissions	80% rating by the MTEC on analysis of departmental budget and MTEC submissions
	Monitoring and analysis of reports on financial management, expenditure and service delivery	% compliance within a 14 day turnaround time for Treasury approval and advice on departmental requests	75% compliance with turnaround time	80% compliance with turnaround time	85% compliance with turnaround time
	Appropriate financial management, expenditure and service delivery monitoring systems in place	Appropriate systems developed and implemented	Review of the Early Warning System and adjustments to system	Measurable objectives and service delivery requirements agreed with departments	Annual service delivery report compiled for each department
	Policy analysis and support	Development and implementation of guidelines on policy analysis and costing	Consistent approach to policy analysis and costing developed and consulted with departments	Guidelines on policy analysis and costing published	Phased implementation of guidelines on policy analysis and costing
	Project management support	% of compliance with sustainability indicators at the level of project purpose and core results incl. budget targets achieved of projects assisted	80% compliance with sustainability indicators to reach project goals (measured by monitoring reports)	85% compliance	90% compliance

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
Intergovernmental Relations	Provincial and local government grants and fiscal framework	Annual Division of Revenue Bill produced within deadline	Bill published on Budget day	Bill published on Budget day	Bill published on Budget day
		Explanatory memorandum on the Division of Revenue Bill produced within deadline	Published on Budget day	Published on Budget day	Published on Budget day
	Support for provincial and municipal financial development	No. of provinces and municipalities in which financial management programmes/ reforms have been implemented	9 provinces and 37 pilot municipalities	9 provinces and 62 municipalities	9 provinces, 62 municipalities and all district councils
	Analysis of intergovernmental financial relations	Timeous production of Review according to pre-announced publication date	2003 Review published in April 2003	2004 Review published on pre-announced date	2005 Review published on pre-announced date
		Monthly and quarterly monitoring of provincial finances	Quarterly reports gazetted	Quarterly reports gazetted	Quarterly reports gazetted
			Monthly provincial reports	Monthly provincial reports	Monthly provincial reports
		Monitoring of municipal finances	Finalisation of the Municipal Financial Management Bill and implementation plan	Quarterly reports by selected pilot municipalities including all metros	Monthly reports by selected pilot municipalities

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
Economic Policy and International Financial Relations	Macroeconomic policy analysis and advice	No. of parliamentary questions answered according to % Ministerial satisfaction	An average of 20 parliamentary questions answered according to 100% Ministerial satisfaction	An average of 20 parliamentary questions answered according to 100% Ministerial satisfaction	An average of 20 parliamentary questions answered according to 100% Ministerial satisfaction
		No. of speeches written	An average of 1 speech per month for DG, Deputy Minister and Minister	An average of 1 speech per month for DG, Deputy Minister and Minister	An average of 1 speech per month for DG, Deputy Minister and Minister
		No. and quality of policy and modelling reports produced (measured by satisfaction rating on completed report)	An average of 10 reports at 80% satisfaction	An average of 10 reports at 80% satisfaction	An average of 10 reports at 80% satisfaction
		Economic forecasts	Four sets of macroeconomic forecasts per year	Four sets of macroeconomic forecasts per year	Four sets of macroeconomic forecasts per year
			Twelve monthly inflation forecasts	Twelve monthly inflation forecasts	Twelve monthly inflation forecasts
		Presentations to rating agencies and investor groups	Two macroeconomic presentations to rating agencies or investor groups per month	Two macroeconomic presentations to rating agencies or investor groups per month	Two macroeconomic presentations to rating agencies or investor groups per month

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
	Tax policy analysis and advice	% alignment of policy proposals with macroeconomic and fiscal framework	100% alignment	100% alignment	100% alignment
		Introduction of Exchange Control Amnesty and Amendment of Taxation Laws Amendment Bill	Exchange Control Amnesty and Amendment of Taxation Laws Amendment introduced bySeptember / October 2003		
		2nd Taxation Laws Amendment Bill	2nd discussion document by November 2003		
		Retirement Fund Tax Review		1st Taxation Laws Amendment Bill on Retirement Fund Taxation May 2004	
		Fuel Levy Review to promote the introduction of clean fuels	Review completed by October 2003 Temporary equalistion of fuel levy between leaded and unleaded petrol implemented by 02 April 2003	Adjustment of fuel levy to incorporate a special levy on leaded petrol and high sulphur diesel from 2004 onwards	
		Review and consolidate or amend VAT Act (89 of 1991)	Review completed by June 2003	Consolidation or amendment of VAT Act by October 2003	
		Release of discussion document of Environmental Fiscal Reform (Environmental Taxes)	Document released on 01 July 2003 2-day workshop held in August 2003	Draft legislation prepared by late 2004	New environment tax introduced in 2005/06
		No. of instruments significantly revised/newly introduced	100% Ministerial satisfaction	100% Ministerial satisfaction	100% Ministerial satisfaction

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
	Financial Sector policy advice, legislation and regulations	Introduction of Financial Services Ombudschemes Bill 2003	Financial Services Ombudschemes Bill introduced by June / July 2003	Enact Financial Services Ombudschemes Bill by 1 January 2004	
		Introduction of revised Security Services Bill 2003	Security Services Bill 2003 introduced by July / August 2003	Enact Security Services Bill 2003 by 1 January 2004	
		Enactment of legislation for a new system of regulating auditors and accountants (Review of draft Accountancy Professions Bill)	Consider Report of the Ministerial Panel for the Review of the draft Accounting Professions Bill during August 2003	Legislation on revised Accountancy Professions Bill enacted by 31 July 2004	
			Consider public comment on the recommendations of the above Ministerial Panel during September 2003.		
		Introduction of Financial Reporting Bill 2003	Consider Report of the Ministerial Panel for the Review of the draft Accounting Professions Bill with particular regard to Financial Reporting Bill and public response to above Report during September 2003	Financial Reporting Act enacted and implemented during First Quarter 2004	
			Consider introduction of Financial Reporting Bill 2003 during October 2003		

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
		Review of Pension Funds Act 1956		Issue Treasury discussion document by end March 2004 Introduce draft legislation for a new Pension Funds Act by 31 December 2004	
		Establishment of a Single Financial Services Authority for the financial services sector (the single regulator)	Develop an implementation plan for the single regulator including draft legislative framework by 31 May 2003 Introduction of draft Financial Services Authority Bill by 30 September 2003	Implementation of all processes for the establishment of the single regulator in terms of the Financial Services Authority Bill during by 31 December 2004	
		Establishment of a Deposit Insurance Scheme (DIS) for retail banking depositors	Develop an implementation plan for the DIS, including draft legislative and regulatory amendments by 31 December 2003	Obtain Cabinet approval by end first quarter 2004 Introduction of draft Bill by end second quarter 2004	
		Introduction of Co-operative Banks Bill 2003	Co-operative Banks Bill 2003 introduced during August / September 2003	Enact Co-operative Banks Bill 2003 by 30 June 2004	
		Formulation of Treasury policy regarding combating of money laundering and financing of terrorism	Facilitating SA membership of OECD/FATF by 31 July 2003 Considering and preparing Treasury policy response document to FATF country assessment (conducted April 2003) to address areas of partial compliance by 31 December 2003	Treasury policy document to FATF 40 + 8 recommendations and to further address areas of partial FATF compliance by 31 December 2004	Treasury policy document to FATF 40 + 8 recommendations and to address any outstanding areas of FATF compliance by 31 October 2005
		Introduction of Financial Intelligence Centre Amendment Bill 2003	Financial Intelligence Centre Amendment Bill introduced by end September 2003	Enact Financial Intelligence Centre Amendment Bill 2003 by 1 May 2004 Implementation of further Regulations under Financial Intelligence Act 2001, as amended, by 30 June 2004	

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
	International financial relations advice and development	Develop and 'sell' policy proposals on international financial architecture reform to the G20, IMF, World Bank and other international financial institutions	Proposals developed on HIPC reform, Sovereign debt restructuring mechanism, best practice capital account and exchange rate policy reform (crisis prevention), IMF emergency lending instruments. NEPAD capital flows & debt relief initiatives in 2002/03	Proposals on international financial architecture reform presented to G20, IMF, World Bank and other international financial institutions	SA's proposals international financial architecture reform reflected in the positions of the G20, IMF, World Bank and other international financial institutions on
		Strengthen SA's capital account through financial market development, capital account policies	Develop and implement an exchange control reform strategy in 2003/04		
			Develop process for shift to prudential regulations in 2003/04	Draft and implement appropriate legislation and regulations for the shift to prudential regulations	Establish monitoring and policy feedback framework for the capital account
		Establish and implement the African Peer Review Mechanism covering economic governance.	African Peer Review Mechanism established in 2003/04	Implementation framework for capital flows initiative set out, including debt and ODA initiatives	Capital flows initiatives implemented. First review of ARPM completed
		Establish rules and procedures for Macroeconomic convergence in SADC	Implementation plan finalised in 2003/04	Convergence programmes established for all SADC countries	
		% of strategic positions filled in the global development policy section, enhancing capacity to engage BWIs at technical and political levels	25% of positions filled	50% of positions filled	100% of positions filled
		Establish framework to redirect WB activities toward the Millennium Development Goals and financing needs	Set up implementation framework in 2003/04	Increase no. of MDG fast-track initiatives from 1 to 3	Fast-track initiatives in place for each MDG

RESOURCE PLAN

Expenditure estimates

Table 3: Economic Planning and Budget Management

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2002/03	2003/04	2004/05	2005/06
Management	6 468	15 230	11 578	13 334
Asset Management	4 721	4 874	5 221	5 719
Liability Management	7 060	9 245	9 883	10 771
Financial Operations	5 954	7 959	9 574	9 270
Strategy and Risk Management	7 410	5 523	5 907	6 465
Total	**31 613**	**42 831**	**42 163**	**45 559**
Change to 2002 Budget Estimate	148	9 700	7 466	
Economic classification				
Current	30 749	42 152	40 365	44 750
Personnel	16 390	23 808	25 399	27 671
Transfer payments	–	–	–	–
Other current	14 359	18 344	14 966	17 079
Capital	864	679	1 798	809
Transfer payments	–	–	–	–
Acquisition of capital assets	864	679	1 798	809
Total	**31 613**	**42 831**	**42 163**	**45 559**
Standard items of expenditure				
Personnel	16 390	23 808	25 399	27 671
Administrative	4 813	4 316	5 209	6 436
Inventories	2 063	1 247	1 301	1 374
Equipment	1 037	1 495	2 651	1 712
Land and buildings	–	–	–	–
Professional and special services	7 310	11 965	7 603	8 366
Transfer payments	–	–	–	–
Miscellaneous	–	–	–	–
Total	**31 613**	**42 831**	**42 163**	**45 559**

Expenditure trends

Expenditure on *Economic Planning and Budget Management* has increased significantly in 2002/03 to fund the work of the Commission of Inquiry into the Depreciation of the Rand. Over the medium term, growth of only a little over 3 per cent a year is envisaged.

The medium-term expenditure estimates provide for a strong expansion of capacity in the National Treasury's economic and fiscal policy work. Priority areas for further professional development include international financial relations, particularly in support Nepad initiatives, tax policy, financial regulation and oversight, support for municipal budgeting and financial restructuring, public-private partnerships, fiscal and public expenditure analysis and technical support for infrastructure planning and project management.

PROGRAMME 3: ASSETS AND LIABILITY MANAGEMENT

Purpose: *Assets and Liability Management* is responsible for the prudent management of Government's financial assets and liabilities, including the domestic and foreign debt portfolios.

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

Programme activities are carried out through five sub-programmes:

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

Policy Developments and strategic context

Interest costs and risks associated with funding make a substantial demand on scarce resources available to the country. Prudent management of the Government's total loan debt of approximately R426 billion is therefore critical. The continued shift from strategic to more tactical debt management reflects the need to maintain liquidity and integrity of the capital markets under conditions of limited government debt issuance. The National Treasury will continue to build-up the liquid benchmark bonds in the 3 to 12 and 12 to 30 year maturities.

The introduction of inflation-linked bonds has created scope for Government to diversify borrowing instruments to finance the budget deficit and reduce the interest burden. The development of a full yield curve of inflation linked bonds will be completed during the 2003/04 financial year by the issuance of an ultra long (30 year) inflation linked bond. The growing sophistication and efficiency of the South African bond market will facilitate this.

The maturing floating rate bond will be replaced by the issuance, in 2003, of a new floating rate bond maturing in 2008. Two single maturity (bullet) bonds maturing in 2008 and 2014 will be introduced in the 2003/04 financial year. These measures will ensure Government's continued access to domestic capital markets.

To broaden the current domestic investor base in government bonds as well as to encourage domestic savings, research will be undertaken and completed by December 2003 into the feasibility of introducing a retail bond market in South Africa. If it is found to be feasible, a bond, targeted at individuals, households and small businesses will be introduced in the last quarter of the 2003/04 financial year.

South Africa's participation in the international capital markets as well as defending and marketing the country for possible ratings upgrades remains a key priority in the management of our foreign liabilities. During the 2003/04 financial year an equivalent of USD1 billion will be borrowed in the international capital markets. Proceeds from these loans will be used to reduce the Net Open Forward Position as well as to redeem maturing foreign bonds. The losses sustained on the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) will be reduced by R7 billion in the 2003/04 financial through the issue of zero coupon bonds to the South African Reserve Bank.

The redemption of the R150 bond in February 2004, 2005 and 2006 will increase the Government's funding requirement steadily in the medium term and will also result in higher than normal cash balances. Diversification of investments and the use of the repurchase agreements (repos) will be used to minimise the Government's credit risk. Treasury bills continue to be viewed as a cash management tool and will be increased by R6 billion in the 2003/04 financial year.

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

A new debt recording system the Commonwealth Debt Recording and Management System (CS-DRMS), acquired from the Commonwealth Secretariat, will be introduced in the 2003/04 financial year. The introduction of this system will be a further improvement in the management and recording of our liabilities.

A new credit policy framework will be developed for the National Treasury during the 2003/04 financial year with a view to reviewing the counter-party risk limits currently in place. The market risk management framework will be reviewed to ensure its relevance to the prevailing domestic and international market conditions as it continues to inform the funding and general debt management decisions of the government.

Ongoing support to public enterprises should bolster the state owned enterprises (SOEs) restructuring programme. A proactive mobilisation of the stakeholders will be a key feature of the activities of the *Asset Management* section in ensuring the full realisation of the budgeted proceeds from the restructuring of the SOEs. In addition to anticipated restructuring receipts, dividend receipts will bolster public coffers as considerable progress has been made to normalise the dividend policies and tax status of all major business public enterprises.

The National Treasury will undertake a comprehensive review of 320 state owned enterprises over the next 18 months. This review will include, but will not be limited to, the following aspects; mandate and strategic objectives, corporate governance, financial performance, treasury operations, human resources and remuneration policy and dividend policy.

A business process review will be undertaken and completed in the 2003/04 financial year with a view to streamlining activities and processes as well as to improve communications and sharing of information and data. This will improve the overall efficiency of the division and release resources to focus on more value-adding activities thus impacting positively on the overall operations.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 3 Assets and Liability Management

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

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
Financial Operations	Intergovernmental cash co-ordination	Phase 1 – All provinces having accounts with CPD	Phase 1 complete by December 2003		Ongoing review and improvements
		Phase 2 – Full implementation of the project		Phase 2 complete by June 2004	Ongoing review and improvements
	Information systems strategy	Business Processes review	Process review and recommendations by September 2003	Strategy document and implementation plan beginning April 2004	
	Implementation of CS-DRMS	Migration and recording of liabilities in the CSDRMS	Domestic debt module completed by September 2003	Foreign debt module completed by June 2004	
	Sound internal controls and timeous reporting	Quality of controls measured by annual audits and met deadlines	Ongoing and annually	Ongoing and annually	Ongoing and annually
Liability Management	Financing the deficit	Meet government borrowing requirement	Net issue of debt of R2,3 billion	Net positive issuance of R7,4 billion	Net positive issuance of R14,5 billion
	Keep presence in foreign markets	Annual issuance in foreign markets	Issue equivalent of US$ 1 billion	Issue equivalent of US$1,5 billion	Issue equivalent of US$ 1 billion
	Eliminate GFECRA losses within MTEF	Annual reduction of GFECRA losses	Issue R7 billion nil coupon bonds	Issue R7 billion nil coupon bonds	Issue R7 billion nil coupon bonds
	Diversification of borrowing instruments	Introduction of new funding instruments	Ultra long CPI bond and retail market	Full yield curve of CPI bonds and operational retail market	Full yield curve of CPI bonds and operational retail market

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
Strategy and Risk Management	Review the Risk Management Framework	Recommendations on a new benchmark	Implement the benchmark	Continuous review	Continuous Review
	Develop and implement a system that will measure the performance of the actual portfolio versus the benchmark	Fully functioning portfolio performance measurement system	In-house built portfolio measurement system	Finalise specifications and tender process for off-shelf system	Implement system
	Produce a quarterly Debt profile review to monitor risks that arise out of the debt portfolio	Quarterly debt profile review	Continuous market monitoring and active debt management	Continuous market monitoring and active debt management	Continuous market monitoring and active debt management
	Acquire a market risk management system	Real-time system in place	Finalise specifications and tender process	Acquire an off the shelf system	Implement ation of new system finalised
	Adoption and signing of ISDA 2002 agreements	Finalise the ISDA agreements	Signed ISDA agreements		
	Development and implementation of Credit risk policy	Approved credit risk policy	Research and produce a first draft policy for comments	Policy approved	
	Ensure that appropriate policies and guidelines to deal with the use of government guarantees for public entities are in place and adhered to.	Approved government guarantee policy	Draft policy circulated to stakeholders for comments	Policy approved	

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
Assets Management	Identify, classify and listing of public entities	Quarterly publications and annual report to SCOPA	Publication in the Government Gazette and Treasury Web-site of all listed entities	Ongoing publication on Government Gazette and Treasury web-site	Ongoing review and publish updates
	Compliance with PFMA	S52,S54,S55,S66 of PFMA – Submission of annual reports; Submission of Corporate Plan by Schedule 2 and 3B entities	To ensure that SOE's comply with PFMA and to finalise the framework of the corporate plan for distribution to SOE's	Enforcement of full compliance by all SOE's	Enforcement of full compliance by all SOE's
	Protocol on Corporate Governance	S70 –Issue of Guarantee by Cabinet Minister with concurrence of the Minister of Finance	Serve as secretariat to the Guarantee Certification Committee (GCC) every quarter.	Serve as secretariat to the Guarantee Certification Committee (GCC) every quarter.	Serve as secretariat to the Guarantee Certification Committee (GCC) every quarter.
		Guideline which read with King II report is applicable on Schedule 2 and 3B and 3D- in particular to disclose the remuneration of directors (both executive and non-executive)	To regulate adherence to Protocol on Corporate Governance	To ensure compliance to regulated Protocol on Corporate Governance	To ensure compliance to regulated Protocol on Corporate Governance

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
	Post Office	Corporatisation of the Postbank as subsidiary of Post Office	Revisit the dividend policy Enabling legislation of Postbank Separation of Assets and Liabilities	Regulatory Framework for Postbank	Ongoing research of expansion of the mandate of Postbank
	Transport	Concessioning of Ports	DPE, DOC and National Treasury to start the process of inviting bidders for the concession	Closing of the deal	Concessioning of the Cape Town and PE terminals
		Transnet end state	First phase of Impact Study completed Request for proposal to be issued To be finalised by September 2003	Apportionment of the debt Workout of the model for disposal	Cooperation of entities within transnet
		Eskom and Transnet Housing	Sell the book by August 2003		
	Armscor	Disposal of non-core business activities Establishment of steering committee	Disposal of non core assets		

RESOURCE PLAN

Expenditure estimates

Table 4: Asset and Liability Management

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2002/03	2003/04	2004/05	2005/06
Management	6 468	15 230	11 578	13 334
Asset Management	4 721	4 874	5 221	5 719
Liability Management	7 060	9 245	9 883	10 771
Financial Operations	5 954	7 959	9 574	9 270
Strategy and Risk Management	7 410	5 523	5 907	6 465
Total	**31 613**	**42 831**	**42 163**	**45 559**
Change to 2002 Budget Estimate	148	9 700	7 466	
Economic classification				
Current	30 749	42 152	40 365	44 750
Personnel	16 390	23 808	25 399	27 671
Transfer payments	–	–	–	–
Other current	14 359	18 344	14 966	17 079
Capital	864	679	1 798	809
Transfer payments	–	–	–	–
Acquisition of capital assets	864	679	1 798	809
Total	**31 613**	**42 831**	**42 163**	**45 559**
Standard items of expenditure				
Personnel	16 390	23 808	25 399	27 671
Administrative	4 813	4 316	5 209	6 436
Inventories	2 063	1 247	1 301	1 374
Equipment	1 037	1 495	2 651	1 712
Land and buildings	–	–	–	–
Professional and special services	7 310	11 965	7 603	8 366
Transfer payments	–	–	–	–
Miscellaneous	–	–	–	–
Total	**31 613**	**42 831**	**42 163**	**45 559**

Expenditure trends

The budget for *Asset and Liability Management* increased by approximately 95,6 per cent in 2002/03 due to expansion of its subprogrammes. Prior to 2002/03, the programme contained only two subprogrammes – *Asset Management and Liability Management*. Since then, the division has expanded and incorporates an additional three subprogrammes – *Management, Financial Operations,* and *Strategy and Risk Management*.

Programme expenditure is projected to rise further over the next three years, amounting to R45,6 million in 2005/06. Additional resources will facilitate the expansion of subprogrammes functions and posts, the implementation of new risk-management approaches, and the establishment of a formal cash management function. This expenditure will, however, help to reduce Government's debt costs significantly.

PROGRAMME 4: FINANCIAL MANAGEMENT AND SYSTEMS

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

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

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

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

Policy Developments

Government initiated reforms to its procurement policies, systems and processes in 1995. Reforms focus on the promotion of good governance and the introduction of a preference system to address certain socio-economic objectives. These are embedded in section 76(4)(c) of the PFMA and Section 106(1)(d) of the Municipal Finance Management Bill and the Preferential Procurement Policy Framework Act (PPPFA) (5 of 2000).

During 2001, in collaboration with the World Bank, the *Supply Chain Management* unit completed a Joint Country Procurement Assessment Review (CPAR), which assessed procurement practices throughout the public sector. The CPAR identified certain deficiencies in current practices relating to governance aspects and the interpretation and implementation of the PPPFA and its associated Regulations (issued in 2001).

During 2002 and the early part of this year, the team developed a *Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government* in conjunction with provincial treasuries. The policy strategy will support the issuing of a regulatory framework aimed at promoting sound financial management and uniformity in implementation of procurement reform initiatives in all three spheres of government.

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

Supply-chain management is an integral part of prudent financial management. It introduces internationally accepted best practice principles, while at the same time addressing Government's preferential procurement policy objectives.

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

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

This year the National Treasury intends to issue a series of practice notes in terms of the framework to guide uniformity in practices and procedures across national, provincial and local government. Provincial treasuries and municipal managers will issue further practice notes in a cascading fashion, guiding the more detailed, technical implementation of supply-chain management practice.

Implementation of supply-chain management practice will be phased in over the MTEF because of considerable divergence between current government procurement and provisioning practice and new supply-chain management policies, systems, procedures and processes.

The first step requires that the national and provincial state tender boards, in liaison with the relevant treasuries, delegate their authority to departmental procurement units, so that the latter can begin to build appropriate capacity.

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

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

Step two calls for the repeal of national and provincial state tender-board legislation and the closure of these offices. The National Treasury intends to facilitate the repealing of the State Tender Board Act (86 of 1968) at the national level this year. Provincial treasuries are required to initiate their own legislative processes for the repealing of respective provincial tender-board legislation and structures.

Now that the state tender board machinery is being dismantled, the National Treasury has established a Supply Chain Management Office to assist with management of transversal or general supply contracts on behalf of national Government. The office will also ensure the alignment of Government supply-chain management practice with the requirements of the PFMA.

The *Supply Chain Management* team has also begun to implement a high-level management information system that will enable Government to obtain information about total procurement in Government and to monitor the extent to which procurement reform objectives are being achieved. Minimum reporting requirements will be prescribed for accounting officers/authorities with a view to establishing a reliable database over the next three years. Over the MTEF, the National Treasury, in collaboration with key government stakeholders, such as the Department of Trade and Industry and provincial treasuries, will review and amend the PPPFA and its associated regulations, ensuring that they contribute more effectively towards meeting Government's objectives for black economic empowerment. These interventions are key elements of the process for promulgating the Broad Based Black Economic Empowerment Bill (to be promulgated during 2003) and for implementing its supporting strategy and framework.

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

The Validation Board, established in November 2001 to accredit training material used in the building of capacity for the implementation of the PFMA, has already accredited 15 courses, ensuring that training initiatives produce the requisite skills. Eight courses were presented between September 2002 and January 2003, including courses in strategic planning and budgeting; internal audit; internal control and risk management; and in-year financial management, monitoring and reporting.

The National Treasury has entered into a service level agreement with the Institute for Public Finance and Auditing for the roll out of a large-scale financial-management training programme over the next three years. The course programme will include modules on government accounting; strategic planning and budgeting; supply-chain management, internal control and fixed-asset management for financial and non financial managers. The arrangement will lead to a joint venture between the Institute for Public Finance and Auditing and the South African Management Development Institute, which is responsible for coordinating public sector training.

The National Treasury submitted progress reports on the implementation of the PFMA to the Cabinet and Parliament in June 2002 and May 2003. A third report is due on 1 September this year. The progress reports suggest, among others, that the quality of financial management is largely determined by the appointment of suitably qualified and competent finance personnel. The 2003 survey of national departments reveals that 91 per cent of departments have appointed a chief financial officer. This represents an 8 per cent improvement over results recorded in the 2001 survey. The 2003 survey also reveals that 86 per cent of departments have aligned their finance components to support implementation of the PFMA – 89 per cent of departments report the appointment of financial accountants and 69 per cent report the appointment of management accountants and supply-chain management practitioners.

At provincial level, the most significant progress is noted in the tabling of 2003 strategic plans, where strategic and performance plans are based on uniform budget formats for the health, education and social development sectors. Such standardisation attempts to set uniform measurable objectives, performance targets and indicators for each budget programme and subprogramme, facilitating provincial comparisons in service delivery progress.

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

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

The priorities over the medium term are:

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

More recently, an Integrated Financial Management Project Office was established on 1 February 2003 to develop a master plan for the integration of Government's financial management systems. The South African Information Technology Agency will perform the task of primary systems integrator in this process. Completed over the next 12 months, the master plan will include options for the replacement and/or enhancement of Government's current financial systems, together with proposed budgets and implementation timeframes relevant to the possible options.

MEASURABLE OBJECTIVES AND MEDIUM TERM OUTPUT TARGETS

Medium-term output targets

Programme 4 Financial Management and Systems

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

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
Supply-Chain Management	Regulating and monitoring supply chain management policy outcomes in Government, and managing transversal term contracts on behalf of Government	Adoption and implementation of consistent legislative and policy framework		Passage through Parliament of revised PPPFA legislation by 30 March 2004	
		Accreditation of national departments to arrange their own contracts	30 May 2003		
		Repeal of the State Tender Board Act and dismantle the State Tender Board	During 2003		
		Develop and maintain supply-chain database	Reports submitted to Cabinet in September	Reports submitted to Cabinet in March and September	Reports submitted to Cabinet in March and September
		Introduce strategic sourcing principles to enhance value for money	Introduce strategic sourcing strategies for 20% of all term contracts	Introduce strategic sourcing strategies for 60% of all term contracts	Introduce strategic sourcing strategies for 100% of all term contracts

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
PFMA Implementation and Coordination	Coordination of the implementation and training initiatives of the National Treasury as well as monitoring implementation of the PFMA in other institutions	Report to Cabinet and Standing Committee on Public Accounts on progress made	30 September 2003	31 March 2004 30 September 2004	31 March 2005 30 September 2005
		Percentage of training material evaluated and accredited relevant to government needs	100%	100%	100%
		Number of courses presented that meet the training needs of Government	10 courses	20 courses	20 courses
Financial Systems	Maintenance and enhancement of existing Financial Management Systems (Persal, Logis, BAS, FMS & Vulindela)	Percentage availability of Financial Management Systems during working hours	98% system availability Monday to Friday from 7:30 to 16:30	98% system availability Monday to Friday from 7:30 to 16:30	98% system availability Monday to Friday from 7:30 to 16:30
	Implementation of Financial Management Systems	Implementation of BAS at national departments and provinces (except North West)		1 April 2004	
	Provision of Integrated Financial Management Systems Solutions	Implementation of the Standard Charts of Accounts on BAS		100% implementation by 1 April 2004 (Pending finalisation by the A-G)	
	Development of Master Plan for integrated financial management systems (IFMS)	Adoption of Master Plan by Budget Council and Cabinet		Approval of Master Plan by Budget Council and Cabinet during March 2004 Detailed phased implementation plan for IFMS will only be available during March 2004	Detailed phased implementation plan for IFMS will only be available during March 2004

RESOURCE PLAN

Expenditure estimates

Table 5: Financial Management and Systems

Subprogramme R thousand	Adjusted appropriation 2002/03	Medium-term expenditure estimate 2003/04	2004/05	2005/06
Management	947	1 123	1 150	1 221
Supply-Chain Management	23 945	26 716	28 534	30 538
PFMA Implementation and Coordination	8 549	15 626	15 752	16 599
Financial Systems	280 143	314 251	342 037	366 833
Total	**313 584**	**357 716**	**387 473**	**415 191**
Change to 2002 Budget Estimate	69 414	107 085	136 557	
Economic classification				
Current	311 815	353 940	384 371	412 065
Personnel	27 907	41 827	43 679	46 364
Transfer payments	–	–	–	–
Other current	283 908	312 113	340 692	365 701
Capital	1 769	3 776	3 102	3 126
Transfer payments	–	–	–	–
Acquisition of capital assets	1 769	3 776	3 102	3 126
Total	**313 584**	**357 716**	**387 473**	**415 191**
Standard items of expenditure				
Personnel	27 907	41 827	43 679	46 364
Administrative	4 831	9 662	10 652	11 805
Inventories	1 521	2 494	2 702	2 910
Equipment	2 788	4 154	3 512	3 584
Land and buildings	–	–	–	–
Professional and special services	276 537	299 579	326 928	350 528
Transfer payments	–	–	–	–
Miscellaneous	–	–	–	–
Total	**313 584**	**357 716**	**387 473**	**415 191**

Expenditure trends

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

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

PROGRAMME 5: FINANCIAL ACCOUNTING AND REPORTING

Purpose: *Financial Accounting and Reporting programme* intends to develop new and enhance existing accounting policies and practices to ensure compliance with Generally Recognised Accounting Practices (GRAP) accounting standards to be issued by the Accounting Standards Board, enabling a transition from the cash basis to an accrual basis of accounting. It also endeavours to improve the timeliness, accuracy and efficiency of financial reporting; and to provide mechanisms for improved financial accountability in the public sector.

Measurable objective: The programme aims to improve the quality of financial accounting and reporting by ensuring that appropriate accounting policies and financial practices are developed for improved disclosure.

The Office of the Accountant-General has undergone considerable restructuring and now consists of the following subprogrammes:

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

Policy Developments

Over the past year, the *Financial Reporting on National Accounts* unit improved the formats for financial reporting for national and provincial governments. This caters for improved disclosure of fixed assets and investments in the Annual Financial Statement for 2002/03. In addition, disclosure is required on gifts, donations and sponsorships to the state. The process is part of the migration plan to comply with Generally Recognised Accounting Practice (GRAP) in terms of Section 216 of the Constitution. The team also set earlier ledger-closure dates and introduced an in-year monitoring system to facilitate timeous monthly, quarterly and annual reporting. This process facilitates the capturing of forecasted expenditure and reasons for deviation thereof. The collated data is then made available for varied time series analyses.

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

During 2002, the Office of the Accountant General established the Accounting Standards Board in terms of the requirement of the Public Finance Management Act (1 of 1999). The Board, among others, will be responsible for the development of GRAP standards over the next few years.

The Minister of Finance approved the members of the Accounting Standards Board during February 2002 and its plan and budget during October 2002. The Board has already determined its work plan and formulated the Framework for GRAP Standards. That is, the Board has determined the order, timing of the formulation of the GRAP standards and the effective dates of implementation, taking into account the proposed timelines to meet the requirements of financial statement consolidation in 2003/04. The Board will concentrate on formulating those GRAP standards that are critical to Government's requirements first. These are property, plant and equipment (assets), inventory, employee benefits, accruals and provisions.

The formulation of GRAP standards will enable the Office of the Accountant General, more specifically the *Financial Management Improvement Programme* team, to develop new, and enhance existing, accounting policies and practices, enabling a transition from the cash basis of accounting to an accrual basis. These policies would be subject to periodic review to ensure that they are consistent with accounting and GRAP standards over time, as determined by the Accounting Standards Board.

Cash accounting is beneficial in that it is a simple, objective system that assesses compliance with cash budgets. However, the system generates limited information on Government's financial and economic position. More specifically, lack of a double-entry system prevents an easy statement of Government's financial position, economic results – that is, whether Government is incurring a saving or dissaving – were not disclosed, and no information on input cost or output performance was available.

GRAP standards therefore need to address these shortcomings of cash accounting and ensure that there is improved disclosure and enhanced accountability in public sector financial reporting.

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

Financial statements prepared on the basis of GRAP will provide comprehensive information on current and projected cash flows, including cash flows associated with debtors and creditors. This will enhance cash management and assist in the preparation of more accurate cash flows.

GRAP also provides a consistent framework for the identification of existing liabilities as well as potential or contingent liabilities. This compels Government to acknowledge and plan for the repayment of all recognised liabilities, not just borrowings, and provides sufficient information on the effect of existing liabilities on future resources.

Implementing GRAP carries significant risks as regards capacity. Most importantly, it demands that national and provincial departments obtain the necessary technical and managerial skills to manage the introduction of new systems and processes and to comply with additional reporting and reconciliation requirements. The GRAP Implementation Timeline therefore phases in the required dates for implementation over the next three to five years.

The team has identified certain risks in implementation of GRAP through the use of departmental surveys regarding current accounting policies and practices. Survey results will aid in developing effective and relevant accounting policies and practices that are GRAP compliant. Complementary in-depth research will ensure that policies and practices developed are harmonised with best practices locally and internationally.

Once the survey results and research analyses are complete, the team will begin formulation of accounting policies and practice. Accounting policies can best be described as the specific principles, bases, conventions, rules and practices that government adopts in preparing and presenting its financial statements. It clarifies the relevant accounting standard issued by the Accounting Standards Board to individual transactions and balances.

As the accounting policies and practices are developed and approved, the financial accounting and reporting system of Government will migrate from a cash basis to an accrual basis of accounting. There are two interim stages before full accrual accounting is realised. From a cash basis, the system will migrate to modified cash accounting where the majority of policies used for the preparation of the accounting records are cash accounting policies supplemented by certain accrual accounting policies. The second migration is to a modified accrual system where the majority of policies used are accrual accounting policies, supplemented by certain cash accounting policies. Full accrual accounting is achieved where all the policies used for preparation of accounting records are accrual accounting policies.

The *Financial Management Improvement Programme* team has circulated six critical accounting policies for comment. These are the investment, financial instruments, inventory, fixed assets, investment property and leases policies. These policies will be finalised and circulated by July 2003 for implementation.

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

In respect of internal audit policies, the Internal Audit Framework was benchmarked against the King II Report and the necessary revisions incorporated into the framework. The revised framework has been circulated for comment to, among others, the Heads of Internal Audit Forum, the Auditor General and the Institute of Internal Auditors. The team has also circulated for comment quick reference guides or handbooks on the internal audit function, audit committees, internal controls, risk management and fraud prevention. By distributing the handbooks, the team aims to raise public sector awareness of the internal audit function and facilitate its implementation. The Auditor General's report provides the team with additional insight into the areas of weakness within departments and provinces. This information is used to enhance existing frameworks, policies and practices, as well as developing new policies and practices to ensure that the highlighted weaknesses are addressed. One of the key weaknesses identified is the ability of departments to implement policy due to capacity constraints.

In addition to the development of policies and practices, the team has determined that successful implementation demands further assistance and detailed guidance. Over the next year, it will develop a more comprehensive and detailed set of government financial procedures and guidelines. It is hoped that this will reduce the timeline for the successful implementation of accounting policies on an operational level and improve the accuracy of financial information. The detailed guidelines will be supported by an early warning system on improved financial management and compliance. The latter will alert national and provincial departments to those areas or categories that may result in a qualification in their respective audit reports. One area already highlighted as problematic is the ability of departments to respond to draft standards issued by the Accounting Standards Board, as well as draft policies and practices. This, as indicated previously, is due to capacity constraints within departments.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 5 Financial Accounting and Reporting

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

Subprogramme	Output	Measure/Indicator	2003/04 Target/ Milestone	2004/05 Target/ Milestone	2005/06 Target Milestone
Financial Reporting for National Accounts	Monthly expenditure and consolidation reports	Timely publishing of accurate reports	30 days after month end	30 days after month end	30 days after month end
	Completion of formats for annual financial statements to 31 March 2004	Completed formats for annual financial statements	31 January 2004	31 December 2005	30 November 2006
	Development of policies and formats for consolidated financial statements for 31 March 2004	Formats and policies defined	28 February 2004	28 February 2005	28 February 2006
Financial Management Improvement	Implementation of GRAP as determined by the Accounting Standards Board	Percentage of GRAP standards implemented	70% of approved policies by 31 March 2004	80% of approved policies by 31 March 2005	85% of approved policies by 31 March 2006
	Continuation of development and enhancement of accounting policies and practices and implementation	Timely issuing of accounting policies and practices, as well as their alignment, based on the approved standards of the Accounting Standards Board	30 September 2003	31 August 2004	31 August 2005
	Ensure compliance with internal framework	Development of standards for benchmarks to measure internal audit units	30 November 2003	30 November 2004	30 November 2005

RESOURCE PLAN

Expenditure estimates

Table 6: Financial Accounting and Reporting

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2002/03	2003/04	2004/05	2005/06
Financial Reporting for National Accounts	26 396	35 526	38 353	41 382
Financial Management Improvement	12 568	13 647	16 658	17 964
Investment of Public Monies	1	1	1	1
Service Charges (Commercial Banks)	5 532	5 781	6 128	6 496
Audit (Auditor General)	11 697	8 252	8 623	9 140
Contingent Liabilities: Reinsurance Liabilities	1	1	1	1
Total	**56 195**	**63 208**	**69 764**	**74 984**
Change to 2002 Budget Estimate	(89 897)	(91 475)	(94 069)	
Economic classification				
Current	53 149	62 737	69 231	74 419
Personnel	8 862	14 591	17 597	19 687
Transfer payments	11 698	11 953	12 524	13 275
Other current	32 589	36 193	39 110	41 457
Capital	3 046	471	533	565
Transfer payments	–	–	–	–
Acquisition of capital assets	3 046	471	533	565
Total	**56 195**	**63 208**	**69 764**	**74 984**
Standard items of expenditure				
Personnel	8 862	14 591	17 597	19 687
Administrative	11 399	10 448	11 193	11 865
Inventories	693	544	571	605
Equipment	3 632	741	821	870
Land and buildings	–	–	–	–
Professional and special services	14 378	19 149	20 929	22 185
Transfer payments	11 698	11 953	12 524	13 275
Miscellaneous	5 533	5 782	6 129	6 497
Total	**56 195**	**63 208**	**69 764**	**74 984**
Transfer payments per subprogramme				
Financial Reporting for National Accounts				
Accounting Standards Board	–	3 700	3 900	4 134
Financial Management Improvement				
Institute for Public Finance and Auditing	–	–	–	–
Financial and Personnel Systems	–	–	–	–
Audit				
Auditor General	11 698	8 253	8 624	9 141
Total	**11 698**	**11 953**	**12 524**	**13 275**

Expenditure trends

The phasing out of transfers for the *Financial Management Improvement* subprogramme in 2001/02 is the largest structural change to the budget of the programme between 2001/02 and 2003/04. Excluding all transfers, the budget for the *Financial Accounting and Reporting* programme will grow at about 11 per cent a year over the medium term.

The budgets for two subprogrammes allocated to this programme in the 2002 Budget – Integrated Financial Systems and Management Information Systems: Vulindlela – have been transferred to *Financial Management and Systems* in Programme Four.

PROGRAMME 6: PROVINCIAL AND LOCAL GOVERNMENT TRANSFERS

Purpose: The *Provincial and Local Government Transfers* programme is responsible for managing those conditional grants to the provincial and local spheres of government.

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

The grant, for which the National Treasury is directly responsible, is divided into two subprogrammes:

- *Provincial Infrastructure Grant* provides for the transfer and monitoring of the Provincial Infrastructure Grant. The grant supplements the provinces' infrastructure budgets, accelerating the building and maintenance of social and economic infrastructure such as hospitals, clinics, schools and provincial roads.
- *Local Government Financial Management and Restructuring Grant* provides for the transfer and monitoring of funds for local government financial management reforms, and assists in restructuring initiatives for modernising the delivery of services in the larger municipalities

Policy Developments

This programme focuses on two specific conditional grants – one for provinces and one for local government – administered by the National Treasury itself. It does not cover the R154 billion equitable share transfer to provincial and local governments, or the conditional grants administered by other national departments.

The *Provincial Infrastructure Grant* was introduced in 2000/01 with an allocation of R300 million to address the backlogs in provincial infrastructure and to boost infrastructure spending in general. The grant was increased to R800 million in 2001/02 and rose further to R1,5 billion in 2002/03. It is expected to rise to R3 billion in 2005/06.

The allocations for 2002/03 and 2003/04 include amounts of R400 million and R200 million respectively, earmarked for the rehabilitation of provincial infrastructure damaged by floods in 1999 and 2000. This grant is provided to provinces in accordance with the annual Division of Revenue Act. Provinces' accounting officers are accountable for the spending of the grant.

The grant has contributed to a near doubling of provincial infrastructure, which rose from about R7 billion (or approximately 6 per cent of total provincial spending) in 2000/01 to just over R11 billion in 2001/02. After a period of sluggish performance, provinces are now increasing their capital spending rapidly. In the first nine months of 2002/03, provinces spent R2,7 billion more on infrastructure than during the first nine months of 2001/02. Increased spending capacity enables provinces to increase their capital budgets to around R14 billion in 2003/04, rising to about R18 billion in 2005/06. The discipline and due-diligence brought into the process by following public-private partnership principles have also been a catalyst in enhanced spending.

The ongoing evolution of the intergovernmental system will see the rationalisation of grants to ensure that there are fewer and better-administered grants. With the turnaround in provincial infrastructure investment, it is envisaged that the *Provincial Infrastructure Grant* will be phased into the equitable share by the 2006/07 financial year.

Experience from financial management reforms in selected municipalities indicates that proper preparation of budgets is critical for reforming operational systems and improving service delivery. The *Local Government Financial Management Reform* programme has been expanded from the initial seven municipalities in 2000 to more than 39 municipalities in 2003. More than 18 municipalities have had first attempts at tabling multi-year budgets and implementing plans to improve financial management practices.

In 2003/04 the allocation for the grant increases to R212 million. This will enable a further 23 municipalities to be added to the pilot programme, bringing the total number to 62, offering the opportunity for more than 200 internships.

Government has also entered into an agreement with the International Bank for Reconstruction and Development to provide technical assistance in implementing municipal financial management reforms. The programme is modelled on the spirit of municipal finance management reforms. The first phase has commenced with the placement of international advisers in nine municipalities. Roll-out of the programme will be fast-tracked over the MTEF.

Promulgation of the Municipal Finance Management Act is expected shortly. A framework for the implementation of the Act will be issued after the formal adoption process. Implementation of the Act, to be completed by mid-2007, will take cognisance of the uneven capacities of municipalities to implement financial reforms. More specifically, the National Treasury intends expanding its capacity-building programme, developing further training material, guidelines and manuals, and issuing guiding regulations to facilitate the implementation of the Act.

Large cities have a significant impact on the regional and national economy. It is important that cities operate in an effective and efficient manner, and are able to generate sufficient revenues to deliver and extend services in their areas. The *Local Government Financial Management Restructuring Grant* assists municipalities with large budgets with their restructuring process. Funding will be targeted towards the larger cities to enhance macroeconomic growth, revenue management, local economic development, effective and efficient service delivery and long-term sustainability.

The grant is demand driven, with municipalities providing benchmarks and conditions against which they will be measured. Disbursements are based on achieving those outputs. Current recipients, including the City of Johannesburg, have used the grant to improve their organisational, financial, administrative and operational processes, translating into effective service delivery. Negotiations with Mangaung and Msunduzi municipalities are at an advanced stage. Mangaung municipality, based in Bloemfontein, has begun to implement an innovative, service-orientated restructure exercise that promises to provide best practice to local government in South Africa.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 6: Provincial and Local Government Transfers

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

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
Provincial Infrastructure Grant	Framework for the grant	Clearly defined purpose, outputs and conditions of the grant, as well as a schedule for payments	A complete framework in full compliance with the requirements of the Division of Revenue Act, and all payments made on schedule	A complete framework in full compliance with the requirements of the Division of Revenue Act, and all payments made on schedule	A complete framework in full compliance with the requirements of the Division of Revenue Act, and all payments made on schedule
	Reports on provincial capital expenditure (with separate reporting for PPPs)	Accurate reports on actual expenditure for the relevant period Clearly defined purpose, outputs and conditions of the grant, as well as a schedule for payments	Quarterly reports to be published as part of Section 32 reports in terms of the timeframes prescribed in the PFMA and the Division of Revenue Act	Quarterly reports to be published as part of Section 32 reports in terms of the timeframes prescribed in the PFMA and the Division of Revenue Act	Quarterly reports to be published as part of Section 32 reports in terms of the timeframes prescribed in the PFMA and the Division of Revenue Act
Local Government Financial Management and Restructuring Grant	Assistance to restructure and modernise delivery of services and successful implementation of budget and financial management reforms in municipalities		Grant framework and all payments made in terms of the requirements of the Division of Revenue Act	Grant framework .and all payments made in terms of the requirements of the Division of Revenue Act	Grant framework .and all payments made in terms of the requirements of the Division of Revenue Act

RESOURCE PLAN

Expenditure estimates

Table 7: Provincial and Local Government Transfers

Subprogramme R thousand	Adjusted appropriation 2002/03	Medium-term expenditure estimate 2003/04	2004/05	2005/06
Provincial Infrastructure Grant	1 950 000	2 534 488	2 876 362	3 055 773
Local Government Financial Management and Restructuring Grant	530 000	526 915	542 149	571 678
Total	**2 480 000**	**3 061 403**	**3 418 511**	**3 627 451**
Change to 2002 Budget Estimate	75 000	69 403	72 271	
Economic classification				
Current	530 000	526 915	542 149	571 678
Personnel	–	–	–	–
Social contributions	–	–	–	–
Transfer payments	529 230	525 830	540 898	570 412
Other current	770	1 085	1 251	1 266
Capital	1 950 000	2 534 488	2 876 362	3 055 773
Transfer payments	1 950 000	2 534 488	2 876 362	3 055 773
Acquisition of capital assets	–	–	–	–
Total	**2 480 000**	**3 061 403**	**3 418 511**	**3 627 451**
Standard items of expenditure				
Personnel	–	–	–	–
Administrative	–	–	–	–
Inventories	–	–	–	–
Equipment	–	–	–	–
Land and buildings	–	–	–	–
Professional and special services	770	1 085	1 251	1 266
Transfer payments	2 479 230	3 060 318	3 417 260	3 626 185
Miscellaneous	–	–	–	–
Total	**2 480 000**	**3 061 403**	**3 418 511**	**3 627 451**

R thousand	Adjusted appropriation 2002/03	Medium-term expenditure estimate 2003/04	2004/05	2005/06
Transfer payments per subprogramme				
Provincial Infrastructure Grant				
Provincial Infrastructure	1 550 000	2 334 488	2 876 362	3 055 773
Flood Rehabilitation	400 000	200 000	–	–
Supplementary allocation	–	–	–	–
Mpumalanga (sec 100(1)(a) of the Constitution)	–	–	–	–
Northern Cape Legislature	–	–	–	–
Adjustments Estimate (accumulated debt)	–	–	–	–
Local Government Financial Management and Restructuring Grant				
Local Government Restructuring	375 000	315 000	342 900	363 474
Financial Management: Municipalities	111 000	151 000	129 000	133 740
Financial Management: Development Bank of Southern Africa	43 230	59 830	68 998	73 198
Total	**2 479 230**	**3 060 318**	**3 417 260**	**3 626 185**

Expenditure trends

The *Provincial Infrastructure Grant* rises from R2,5 billion in 2002/03 to R3 billion in 2003/04, increasing to R3,6 billion at the end of the MTEF. The *Local Government Financial and Restructuring Grant* increases from R526 million in 2003/04 to R572 million in the outer year.

PROGRAMME 7: CIVIL AND MILITARY PENSIONS, CONTRIBUTIONS TO FUNDS AND OTHER BENEFITS

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

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

There are two subprogrammes:

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

Policy Developments

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

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

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

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

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

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

The number of applications received since 1996 totals 32 204. Of these, 99 per cent had been processed by 31 January 2003. The Special Pensions Boards is still processing the remaining 1 per cent and a further batch of 2 438 late applications.

Of those applications that were processed, 33 per cent were approved and 67 per cent were rejected. Of those that were rejected, 35 per cent (67 899) were in respect of applicants who do not qualify because of the age restriction (that is, those that were under the age of 35 years at the commencement date of the Act, 1 December 1996).

Since full implementation of the Act in 1997, the Special Pensions Review Board has received 4 404 appeals. Of these, 53 per cent had been processed by 31 January 2003. Of these, 7 per cent were approved and 93 per cent rejected.

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

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

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

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

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

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

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

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target/ Milestone
Civil Pensions and Contribution to Funds	Payment of pension benefits and contributions to funds (including Special Pensions)	17 614 beneficiaries paid monthly	Payment to be made on the first working day of each month	Payment to be made on the first working day of each month	Payment to be made on the first working day of each month
	Payment of contributions to medical-aid schemes	82 256 members paid monthly	Payment to be made by the end of the month following the month in which the expenses were incurred	Payment to be made by the end of the month following the month in which the expenses were incurred	Payment to be made by the end of the month following the month in which the expenses were incurred
	Payment of risk and administration fees to the Political Office Bearers' Pension Fund	Payment of risk and administration fees i.r.o. 959 members monthly	Payment to be made by the 7th working day of each month	Payment to be made by the 7th working day of each month	Payment to be made by the 7th working day of each month
Military Pensions and Other Benefits	Payment of military pension benefits	7 667 beneficiaries paid monthly	Payment to be made on the 1st working day of each month	Payment to be made on the 1st working day of each month	Payment to be made on the 1st working day of each month
	Payment to service providers for medical expenses	4 944 beneficiaries paid monthly	Payment of claims on receipt of claims from service providers	Payment of claims on receipt of claims from service providers	Payment of claims on receipt of claims from service providers

RESOURCE PLAN

Expenditure estimates

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

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2002/03	2003/04	2004/05	2005/06
Civil Pensions and Contributions to Funds	1 780 358	1 904 569	2 038 966	2 161 304
Military Pensions and Other Benefits	135 277	125 000	125 000	132 500
Total	**1 915 635**	**2 029 569**	**2 163 966**	**2 293 804**
Change to 2002 Budget Estimate	–	–	–	
Economic classification				
Current	1 915 635	2 029 567	2 163 964	2 293 802
Personnel	–	–	–	–
Social contributions	1 777 038	1 890 359	2 023 904	2 145 339
Transfer payments	116 572	116 642	116 740	123 744
Other current	22 025	22 566	23 320	24 719
Capital	–	2	2	2
Transfer payments	–	2	2	2
Acquisition of capital assets	–	–	–	–
Total	**1 915 635**	**2 029 569**	**2 163 966**	**2 293 804**
Standard items of expenditure				
Personnel	–	–	–	–
Administrative	–	–	–	–
Inventories	–	–	–	–
Equipment	–	–	–	–
Land and buildings	–	–	–	–
Professional and special services	22 025	22 566	23 320	24 719
Transfer payments	116 572	116 644	116 742	123 746
Miscellaneous	1 777 038	1 890 359	2 023 904	2 145 339
Total	**1 915 635**	**2 029 569**	**2 163 966**	**2 293 804**
Transfer payments per subprogramme				
Civil Pensions and Contributions to Funds				
Provident Funds for Associated Institutions	696	727	771	817
United Kingdom Tax	2 624	2 742	2 906	3 080
Contribution to Closed Pension Fund	–	–	–	–
Military Pensions and Other Benefits				
Military Pensions: Ex-Servicemen	45 158	44 090	42 175	44 706
SA Citizen Force	68 042	69 031	70 833	75 083
SA Legion	50	52	55	58
Civil protection	2	2	2	2
Total	**116 572**	**116 644**	**116 742**	**123 746**

Expenditure trends

Government is contribution to medical schemes for retired civil servants carries the largest expenditure burden in this programme, growing from R1,3 billion in 2002/03 to R1,5 billion in 2005/06. Because of the accelerated adjudication of applications as a result of the appointment of a full time Special Pensions Board and a Special Pensions Review Board by the Minister of Finance, Special Pension payments increased after 2001/02. This is expected to slow down over the 2003 MTEF period as the payment process is completed.

PROGRAMME 8: FISCAL TRANSFERS

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

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

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

Foreign transfer payments, made in terms of the relevant international obligations of Government are made to:
- *Lesotho* and *Namibia* in terms of the Multilateral Monetary Agreement.
- The *World Bank Group*.
- The *Highly Indebted Poor Countries Initiative* (HIPC) of the International Monetary Fund.
- The *African Development Fund*.
- The *African Development Bank*.

Policy Developments

Domestic transfers

South African Revenue Service

The South African Revenue Service (SARS) has continued to make significant progress in enhancing its administrative capacity in order to become a world-class tax and customs administrator, capable of effectively responding to the challenges of globalisation. Tax collections have consistently surpassed budget targets. In 2002/03, total tax revenue collected amounted to R281,6 billion, exceeding the original target by R1,5 billion.

In 2001, SARS launched Siyakha, its most expansive transformation programme to date. The programme aims to overhaul the organisation's operational infrastructure through business process re-engineering. SARS has also made significant progress orientating its culture towards customer service and improved service delivery, embodied in the principles of Batho Pele. The organisation continues to make progress in building its enforcement capability and tackling willful non-compliance through the performance of integrated audits, collaboration with industries and professional bodies, as well as implementing risk-based techniques in managing its activities.

During 2003/04, SARS will focus on developing and implementing a comprehensive compliance strategy that provides an integrated response to taxpayer behaviour. The strategy includes simplifying administrative processes, improving service levels, and strengthening targeted enforcement initiatives.

Over the medium term, SARS will continue to seek ways of increasing revenue collections while holding down collection costs and becoming more accessible and transparent. To this end, it will focus on:

- Enhancing core processes in order to eliminate backlogs, improving the quality of assessment and processing in particular;
- Implementing the Siyakha programme in the outlying offices of the Western Cape and Gauteng;
- Implementing a comprehensive risk-management programme to improve corporate governance and internal control;
- Continuing to build on the strengths of its organisational structure, culture and technology, while transforming those elements that remain sub-optimal; and
- Improving taxpayer service, communication and education.

Table 9: Summary of revenue and expenditure for the South African Revenue Service

	Revenue/Expenditure outcome	Medium-term estimate		
	Estimated outcome			
R thousand	2002/03	2003/04	2004/05	2005/06
Revenue				
Tax revenue	–	–	–	–
Non-tax revenue	151 540	95 958	102 674	109 860
Sale of capital assets	–	–	–	–
Transfers received	3 501 950	3 792 007	4 602 509	4 748 312
Total Revenue	**3 653 490**	**3 887 965**	**4 705 183**	**4 858 172**
Expenditure				
Current expenditure	3 586 237	4 055 218	4 399 977	4 511 822
Compensation of employees	1 867 097	2 347 557	2 537 090	2 817 684
Goods and services	1 719 140	1 707 661	1 862 887	1 694 138
Transfer payments and subsidies	–	–	–	–
Other expenditure	–	–	–	–
Capital expenditure	282 673	511 112	498 334	386 320
Transfer payments	–	–	–	–
Fixed assets	282 673	511 112	498 334	386 320
Land and subsoil assets	–	–	–	–
Total Expenditure	**3 868 910**	**4 566 330**	**4 898 311**	**4 898 142**
Surplus/(Deficit)	(215 420)	(678 365)	(193 128)	(39 970)

Data provided by the South African Revenue Service

The Financial and Fiscal Commission

The Financial and Fiscal Commission (FFC) was established in terms of Section 220 of the Constitution, and of the Financial and Fiscal Commission Act (99 of 1997). The Commission does not generate funds and is financed by way of a transfer payment from the National Treasury.

Section 214 of the Constitution and Section 9 of the Intergovernmental Fiscal Relations Act (97 of 1997) require the FFC to make recommendations on the division of revenue. Under the Act, the FFC submits its recommendations to the Minister of Finance, Parliament and provincial legislatures 10 months ahead of the financial year, or later as may be agreed between the Minister of Finance and the FFC. The Financial and Fiscal Commission Act (99 of 1997), read together with the provisions in other relevant legislation, require the FFC to respond to requests from organs of state on various financial and fiscal issues.

The FFC tabled proposals for this year in Parliament on 30 April 2002 in *Financial and Fiscal Commission Submission*: *Division of Revenue 2003-2004*. The provincial proposals were presented to the Budget Council meeting of 17 May by the FFC, and discussed at the Budget Council meetings of the 19 July, 22-24 August and 3 October.

The local government proposals were discussed at the joint Finance and Local Government MinMEC of 12 August 2002 and the Budget Forum of 3 October 2002. The extended Cabinet meeting of 16 October also considered national Government's response.

The FFC presented 12 proposals: four proposals on provincial government, five proposals on local government, and three proposals on crosscutting equitable share issues. Most of these do not have immediate implications for the 2003 Budget, as they are either of a general nature or require more research or time to investigate or implement. Some of the proposals are summaries of, and work in progress arising from, proposals made to Parliament during 2001/02.

Provincial government proposals comprise the FFC's recommendations on:

- Provincial Own Revenue Sources;
- Provincial Tax Regulation Process Bill (2001);
- Early childhood development funding;
- Implications of HIV/Aids for the health, education and social development sectors;
- Primary health care; and
- Framework for Comprehensive Social Security Reform.

Local government proposals refer to those on:

- Division of powers and functions between district and local municipalities (July 2001);
- Restructuring of the electricity distribution industry;
- Municipal borrowing and municipal finance markets;
- Municipal Finance Management Bill;
- Remuneration of municipal councillors (July 2001); and
- Measurement of revenue raising capacity.

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

The Financial Intelligence Centre

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

Considerable progress continues to be made in implementing the Financial Intelligence Centre Act, which envisages the development of an anti-money laundering environment in South Africa largely in accordance with international standards set by the Financial Action Task Force. The Act creates two institutions – the Money Laundering Advisory Council (MLAC), which is intended to provide the Minister with legislative advice, and the FIC, which is intended to track irregular financial practices, especially the proceeds of crime. The FIC is to receive reports from accountable institutions, store and analyse the information, and thereafter make reports available to law enforcement agencies for investigation or share information with similar bodies internationally.

The Regulations to the Act were approved by Parliament in December 2002 after consideration by the MLAC. These introduced reporting obligations that required accountable institutions to report suspicious transaction reports (STRs) and which came into effect from 3 February 2003. Nearly 1 000 reports were received and processed by the FIC between then and the end of 2002/03 financial year. It has been difficult to estimate the number of STRs the FIC will receive during its first full year. It is anticipated that the rate at which the reports are sent will gradually drop before stabilising. However, this will be offset by the improved quality of reporting. As a result the FIC estimates that it will receive 2 500 STRs during the financial year. It is also estimated that after processing and analysis, the FIC will distribute approximately 120 reports to law-enforcement authorities for investigation during the year.

Compliance measures are being introduced in stages. The majority of businesses in the financial-services industry were compliant at the end of the 2002/03 financial year – having appointed compliance officers; run staff-training programmes; and having had mechanisms in place to report suspicious transactions (STRs) to the FIC. These measures are to be enforced across all accountable institutions during 2003/2004. In addition, regulations regarding customer identification and record-keeping become effective from July 2003.

The FIC is taking active steps to create awareness and provide guidance to accountable institutions, supervisory bodies and law-enforcement authorities. For example, the FIC and, in particular, its Compliance and Prevention division, will continue to participate in conferences and workshop programmes. It will also participate through relevant Setas, such as those for the banking, insurance and other sectors.

The FIC will also run a course for financial investigators from law enforcement authorities and financial institutions on five occasions.

An information technology system has been developed and implemented to enable the receipt and storage of reports by the FIC and will be further refined during the first quarter of the financial year. This system enables the analysis of data and provides facilities to access a variety of databases, although it remains temporary until the future and long-term requirements of the FIC have been fully scoped and implemented, based on international best practice.

A project has been initiated to scope the long-term information technology systems requirements of the FIC. It will set out the necessary development steps, software and hardware requirements; and the resources required and cost details of implementation. Plans have been made for this project to be supported by technical assistance from the World Bank and the financial intelligence units from Canada and Australia.

During the year, the FIC will continue to employ relevant, highly skilled staff in its four divisions – Compliance and Prevention, Monitoring and Analysis, Strategic Research and Administrative Support Services. At present a staff of 20, mainly seconded from different government departments, will be expanded to a full-time staff of about 45 by year end. It is planned that the FIC should have a staff of 76 by the end of next year. A concerted effort will be made to train and equip such staff and expose them to the knowledge and practice of other financial intelligence units. The FIC was establishment by, and has operated as, a project from within National Treasury. It is anticipated that the FIC will become an autonomous and self-functioning government agency reporting to the Minister of Finance by the end of the second quarter of this financial year.

South Africa has been attending sessions of the Financial Action Task Force (FATF) and its relevant working groups, helping to redefine international anti-money laundering standards and set standards regarding terrorist financing. South Africa has recently had its legislation, systems for coordination and enforcement and the extent of compliance assessed by the FATF. It is anticipated that during the year South Africa will be invited to become the first African country to become a fully-fledged and active member of the organisation. The membership subscription fees are still to be determined, but will be based on a percentage of South Africa's GDP. South Africa was accepted as a member of the Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG) last year and will actively participate in its programmes during the year. Subscription fees for ESAAMLG membership amount to US$20 000 per annum. In addition, the Egmont Group of Financial Intelligence Units has done an assessment of the FIC and has invited the FIC to become a member of the group, thereby enabling the FIC to share information and expertise with other financial intelligence units.

Foreign transfers

Lesotho and Namibia

Botswana, Lesotho, Swaziland and South Africa concluded negotiations on the new Southern Africa Customs Union (SACU) dispensation in October 2001. The countries agreed to a new institutional arrangement and a new revenue-sharing formula for the common customs area. The re-negotiated SACU agreement is expected to come into effect in 2004/05.

The Common Monetary Area (CMA) countries meet annually to discuss economic developments in their countries (Lesotho, Namibia, Swaziland and South Africa) and adjustments to foreign-exchange regulations. In 2002 and 2003, the CMA has and will discuss deposit insurance systems and the role of the CMA in macroeconomic convergence in the region.

The HIPC initiative

At the 2000 Annual Meeting of the World Bank and the International Monetary Fund (IMF), Government pledged to contribute SDR20 million (R250 million) to the Highly Indebted Poor Country (HIPC) initiative – payable in five equal annual installments of SDR4 million each commencing in May 2000. (The rand amount of each installment is determined by the rand-SDR exchange rate on the date of payment). South Africa is still due to pay SDR4 million (R50 million) in 2003/04 and in 2004/05.

In addition in 1999, Government contributed R7,5 million as a grant to the HIPC Trust Fund for the Poverty Reduction and Growth Facility of the IMF. The payment represented South Africa's balance in the Second Special Contingent Account (SCA-2). The SCA-2 balance was generated through additional interest paid on a R2,7 billion loan from the IMF.

The loan was made in 1993 and has since been fully repaid. Government has also approved the total cancellation of bilateral official debt owed by HIPC eligible countries as part of the country's commitment under the initiative to grant debt relief to bilateral debtors.

The African Development Bank and African Development Fund

During 2001, Government actively participated in the negotiations regarding additions to the funding available from the World Bank and the African Development Bank at below world market rates. South Africa participates in replenishing International Development Association (IDA) and African Development Fund (ADF) resources. Both IDA 13 and ADF 9 have recently been concluded. South Africa's contribution to IDA 13 amounts to R83 million, which will be encashed over a nine-year period from June 2001 to June 2009, and represents a total annual payment of R9,23 million. South Africa will also contribute R24,7 million to ADF, to be paid in three equal installments of R8,2 million each.

In August 2001, Government increased its shareholding in the African Development Bank from 1,0 per cent to 4,1 per cent, making it the fifth-largest shareholder. South Africa currently represents Lesotho, Malawi, Mauritius, Swaziland and Zambia on the Board of Directors. This position will be occupied until June 2003 after which one of the other constituency member countries will nominate a candidate to serve as Executive Director.

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

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 8 Fiscal Transfers

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

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
All subprogrammes	Transfer of funds	Timely and accurate transfers to the relevant public entity/institution	Monthly or annual transfers made timeously according to pre-set or prescribed dates	Monthly or annual transfers made timeously according to pre-set or prescribed dates	Monthly or annual transfers made timeously according to pre-set or prescribed dates
South African Revenue Service	Efficient tax and revenue administration with high level of compliance and customer satisfaction	Meet the set revenue target for the financial year	Meet the revenue target of R310 billion	Meet revenue target of R338 billion	Meet revenue target of R369 billion
		Reduce the tax gap and outstanding debt	Reduce the tax gap and outstanding debt to R8,1 billion	Reduce the tax gap and outstanding debt to R8 billion	Reduce the tax gap and outstanding debt to R8 billion
		Achieve target turnaround time for service to public	Processing of 90% of VAT, PAYE and IT returns within 15 working days	Processing of 90% of VAT, PAYE and IT returns within 15 working days	Processing of 90% of VAT, PAYE and IT returns within 15 working days

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
Financial and Fiscal Commission	Advice and recommendations in terms of the FFC Act and the Intergovernmental Relations Act	Present annual submission to Parliament, the provincial legislatures and SALGA at least 10 months before the start of the annual budget cycle	Printed document submitted to Parliament and distributed to the provincial legislatures, SALGA, and the Minister of Finance by 30 April 2003 or on a later date as agreed to by the Minister of Finance	Printed document submitted to Parliament and distributed to the provincial legislatures, SALGA, and the Minister of Finance by 30 April 2004 or on a later date as agreed to by the Minister of Finance	Printed document submitted to Parliament and distributed to the provincial legislatures, SALGA, and the Minister of Finance by 30 April 2005 or on a later date as agreed to by the Minister of Finance
		Comment on or submit recommendations on the Division of Revenue Bill to the Minister of Finance and Parliament at least 14 days before the introduction of the Bill in Parliament	Written submission on the Division of Revenue Bill made to the Minister of Finance and Parliament at least 14 days before the introduction of the Bill in Parliament	Written submission on the Division of Revenue Bill made to the Minister of Finance and Parliament at least 14 days before the introduction of the Bill in Parliament	Written submission on the Division of Revenue Bill made to the Minister of Finance and Parliament at least 14 days before the introduction of the Bill in Parliament
		Respond to requests from stakeholders, on other policy issues and on legislative obligations according to the mandate of the FFC within 45 days	Response to requests from stakeholders, on other policy issues and on legislative obligations according to the mandate of the FFC finalized within 45 days	Response to requests from stakeholders, on other policy issues and on legislative obligations according to the mandate of the FFC finalized within 45 days	Response to requests from stakeholders, on other policy issues and on legislative obligations according to the mandate of the FFC finalized within 45 days
Financial Intelligence Centre	Ensure compliance measures are adhered to within Accountable Institutions	Appointment of Compliance Officers and introduction of compliance measures	Reporting of Suspicious and Unusual Transactions	Additional compliance measures implemented by July 2003 – requiring of accountable institutions that they put in place “know your customer”, record keeping, appointment of compliance officers, and staff training	Expanded capacity to ensure ongoing monitoring of compliance
	Provide guidance and combat money laundering activities	Awareness programmes and training seminars	Ongoing awareness and rollout of training	Ongoing awareness and rollout of training	Ongoing awareness and rollout of training
	Monitor and analyse financial transactions for evidence of laundering activities	Analysis of transactions activities revealing patterns of laundering activity	250 suspicious training reports from accountable institutions	3 000 suspicious training reports from accountable institutions	5 000 suspicious training reports from accountable institutions
	Scoping, designing and installing IT systems	Design, acquisition and implementation of the IT systems	Design and acquisition of the IT systems to enable functioning by March 2003	Scope future IT systems and architecture, and proceed on development, acquisition and installation	75 per cent of the IT systems implemented by 2005

RESOURCE PLAN

Expenditure Estimates

Table 10: Fiscal Transfers

Subprogramme R thousand	Adjusted appropriation 2002/03	Medium-term expenditure estimate 2003/04	2004/05	2005/06
Lesotho and Namibia	277 837	157 632	167 044	177 767
Development Bank of Southern Africa	1	40 001	40 001	40 001
World Bank Group	1	1	1	1
Highly Indebted Poor Countries Initiative	45 000	55 000	55 000	–
African Development Bank	116 373	129 567	154 316	163 575
South African Revenue Service	3 501 950	3 792 007	4 602 509	4 748 312
Financial and Fiscal Commission	12 038	12 679	13 759	13 875
Secret Services	1 328 668	1 768 718	2 055 239	1 979 940
Financial Intelligence Centre	35 000	37 000	12 720	13 483
Total	**5 316 868**	**5 992 605**	**7 100 589**	**7 136 954**
Change to 2002 Budget Estimate	248 805	567 455	1 172 833	
Economic classification				
Current	4 625 952	5 108 816	6 078 535	6 256 052
Personnel	–	–	–	–
Transfer payments	4 625 952	5 108 816	6 078 535	6 256 052
Other current	–	–	–	–
Capital	690 916	883 789	1 022 054	880 902
Transfer payments	690 916	883 789	1 022 054	880 902
Acquisition of capital assets	–	–	–	–
Total	**5 316 868**	**5 992 605**	**7 100 589**	**7 136 954**
Standard items of expenditure				
Personnel	–	–	–	–
Administrative	–	–	–	–
Inventories	–	–	–	–
Equipment	–	–	–	–
Land and buildings	–	–	–	–
Professional and special services	–	–	–	–
Transfer payments	5 316 868	5 992 605	7 100 589	7 136 954
Miscellaneous	–	–	–	–
Total	**5 316 868**	**5 992 605**	**7 100 589**	**7 136 954**

R thousand	Adjusted appropriation 2002/03	Medium-term expenditure estimate 2003/04	2004/05	2005/06
Transfer payments per subprogramme				
Lesotho and Namibia	277 837	157 632	167 044	177 767
Development Bank of Southern Africa	1	40 001	40 001	40 001
World Bank Group	1	1	1	1
Highly Indebted Poor Countries Initiative				
International Monetary Fund	45 000	55 000	55 000	–
African Development Bank	116 373	129 567	154 316	163 575
South African Revenue Service	3 501 950	3 792 007	4 602 509	4 748 312
Financial and Fiscal Commission	12 038	12 679	13 759	13 875
Secret Services	1 305 690	1 768 718	2 055 239	1 979 940
Financial Intelligence Centre	57 978	37 000	12 720	13 483
Total	**5 316 868**	**5 992 605**	**7 100 589**	**7 136 954**

Expenditure trends

Fiscal Transfers makes up about 50 per cent of the Department's budget, with the bulk of the allocation made to the South African Revenue Service (SARS) and the Secret Services. The programme budget is expected to grow at about 10,3 per cent a year over the 2003 MTEF. The budgets for both SARS and the Secret Services have grown faster than the budgets for the programme as a whole, while a once off adjustment to the transfer made to Lesotho and Namibia in 2002/03 reflects the delay in agreeing on the rounding rules and calculation methods applied in 2001/02.

PUBLIC ENTITIES

Public Entities

National Treasury

Public Entities

Public Entities

PUBLIC ENTITIES REPORTING TO THE MINISTER OF FINANCE

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

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

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

The Development Bank of Southern Africa

The Development Bank of Southern Africa (DBSA), a Schedule 2 major public entity, is governed by the Development Bank of Southern Africa Act (13 of 1997). The DBSA is a development finance institution wholly owned by the South African Government. The callable capital of the Bank – provided by Government – is R4,8 billion and the paid-up capital is R200 million. At 31 March 2001, it had total assets of R17,7 billion. The Bank is self-sustaining and raises capital on the local and international capital markets. It has investment grade international credit ratings from Standard and Poor's (BBB-) and Moody's (Baa3), on par with the South African sovereign rating and a domestic credit rating for long-term debt of AAA.

Financial Services Board

The Financial Services Board is a statutory body formed in terms of the Financial Services Board Act (97 of 1990). It supervises control over the activities of non-banking financial services and acts in an advisory capacity to the Minister of Finance. The Board is financed by the financial services industry, with no contribution from Government. The Board supervises those institutions and services in terms of 16 parliamentary Acts, which entrust regulatory functions to the Registrar of Long- and Short-term Insurance, Friendly Societies, Pension Funds, Unit Trust Companies, Stock Exchanges and Financial Markets. Functions include regulatory control over insider trading and the participation bonds industry, certain trust and depository institutions, and it supervises central security depositories responsible for the safe custody of securities. The Board is also responsible for the financial supervision of the Road Accident Fund.

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Public Investment Commissioners

The Public Investment Commissioners (PIC) is a statutory body governed in terms of the Public Investment Commissioners Act (45 of 1984). The Minister is responsible for appointing the board, which is responsible for overseeing the activities of the secretariat and its investment portfolio. The PIC is effectively self-funded and produces its own annual report, which is tabled in Parliament. It invests and manages surplus funds on behalf of various public-sector bodies. Previously the PIC was restricted to the role of a government administrative agency, investing all deposits in gilts and semi-gilts. In 1995 this was extended to include equities and property.

Organisational Information and the Institutional Environment

Organisational Information and the Institutional Environment

Organisational Information and the Institutional Environment

Organisational Information and the Institutional Environment

Organisational Information and the Institutional Environment

Organisational Information and the Institutional Environment

ORGANISATIONAL RESTRUCTURING

The National Treasury is a dynamic, growing institution. Formed in April 2000 out of a merger between the Finance and State Expenditure departments, the National Treasury now consists of eight divisions – *Corporate Services*, the *Budget Office*, *Public Finance*, *Intergovernmental Relations*, *Economic Policy* and *International Financial Relations*, *Assets and Liability Management*, the *Office of the Accountant General*, and *Specialist Functions*.

The National Treasury now employs more than 500 people, including professional and administrative personnel, and is still growing. By 2005 when it will be fully staffed, the National Treasury expects to employ about 750 people.

National Treasury teams are dedicated to ensuring the efficient and sustainable management of public finances, promoting economic development, good governance and rising living standards within communities across South Africa.

The three-year strategy presented here delivers a bold vision and direction in this regard. Its success, however, depends critically on organisational restructuring directed towards supportive and effective institutional arrangements and environment.

Over the past two years, restructuring priorities aimed to develop and implement a new organisational structure and fill core senior management and professional positions. Seven Deputy Directors General were appointed to head the newly established divisions.

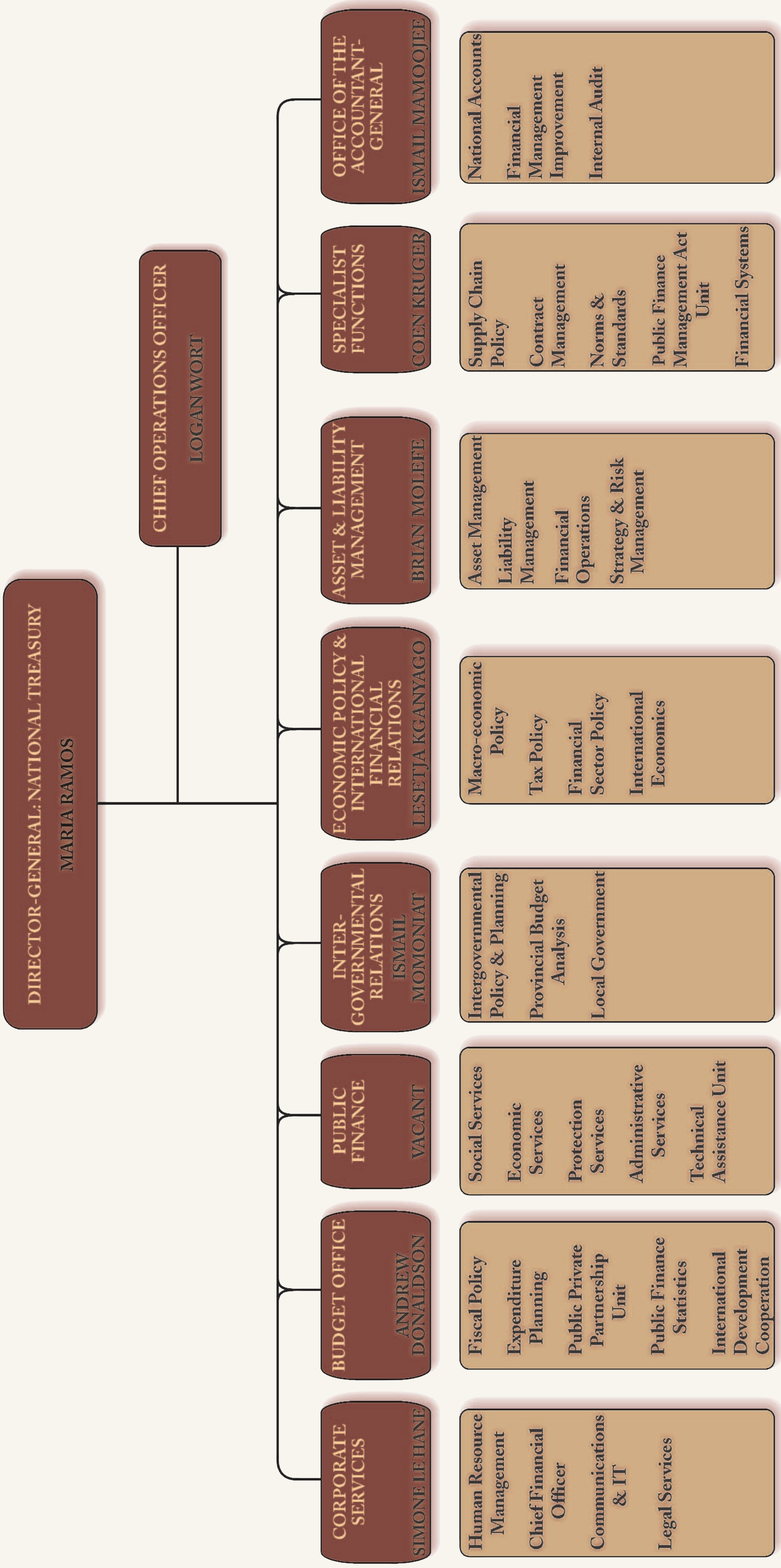
Thorough overhaul of the core administrative functions include:

- Organisational restructuring, supported by the launch of an Employee Assistance Programme to provide counselling, support and assistance to members of staff; a greater focus on employment equity; and successful implementation of the Senior Management Service;
- Preparation of a Public Finance Management Act implementation plan to improve financial management and accountability within the National Treasury;
- Adoption of Persal and the Basic Accounting System for the integrated department;
- Piloting of public sector procurement reforms aimed at decentralisation, improved procedures, transparency and meeting empowerment targets; and
- Refurbishment and renovation of offices into an open-plan working environment that fosters a team culture and corporate self-management ethic.

The National Treasury is now focusing on finalising and filling the microstructure within each of the eight divisions in terms of the absorption framework agreed to with the unions. Newly created posts and posts that have changed considerably, particularly at the senior management level, have all undergone a rigorous job-evaluation process. Considerable work has gone into identifying suitable employees for absorption against the new structures and the redeployment of others to appropriate positions with the department.

Extensive team-building exercises are planned throughout the National Treasury to create a common culture and purpose, underpinned by a less hierarchical and more egalitarian structure and ethic. Special attention will be given to the education, training and development of human resources to comply with the requirements of the Skills Development Act.

Specific challenges over the MTEF include introducing performance management systems and procedures, making better use of information technology, and establishing a comprehensive capacity-building programme.


DIRECTOR-GENERAL: NATIONAL TREASURY
MARIA RAMOS
CHIEF OPERATIONS OFFICER
LOGAN WORT
CORPORATE SERVICES
SIMONE LE HANE
Human Resource Management
Chief Financial Officer
Communications & IT
Legal Services
BUDGET OFFICE
ANDREW DONALDSON
Fiscal Policy
Expenditure Planning
Public Private Partnership Unit
Public Finance Statistics
International Development Cooperation
PUBLIC FINANCE
VACANT
Social Services
Economic Services
Protection Services
Administrative Services
Technical Assistance Unit
INTER-GOVERNMENTAL RELATIONS
ISMAIL MOMONIAT
Intergovernmental Policy & Planning
Provincial Budget Analysis
Local Government
ECONOMIC POLICY & INTERNATIONAL FINANCIAL RELATIONS
LESETJA KGANYAGO
Macro-economic Policy
Tax Policy
Financial Sector Policy
International Economics
ASSET & LIABILITY MANAGEMENT
BRIAN MOLEFE
Asset Management
Liability Management
Financial Operations
Strategy & Risk Management
SPECIALIST FUNCTIONS
COEN KRUGER
Supply Chain Policy
Contract Management
Norms & Standards
Public Finance Management Act Unit
Financial Systems
OFFICE OF THE ACCOUNTANT-GENERAL
ISMAIL MAMOOJEE
National Accounts
Financial Management Improvement
Internal Audit

DELEGATIONS

Human Resources Management

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

The *Corporate Services* division is continuously involved in the appointment processes of line managers, ensuring compliance with best Human Resource Practices as required by the various legislative frameworks.

Financial Management

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

CAPITAL INVESTMENT, MAINTENANCE AND ASSET MANAGEMENT PLAN

The National Treasury is in essence a financial and administrative services department, and therefore owns no fixed assets, such as buildings. Lease payments for its premises – 240 Vermeulen Street and 40 Church Square – are administered and paid for by the Department of Public Works.

Further expansion of the eight divisions necessitates additional accommodation requirements over the MTEF period. The *Corporate Services* division is considering undertaking infrastructure renovations to the adjacent 38 Church Square building, dependent on positive engineering reports. The next three years will also see the completion of the refurbishment of the 240 Vermeulen Street building, the revision of the internal arrangements in 40 Church Square to optimise divisional accommodation and the refurbishment of the Cape Town office at 120 Plein Street.

INFORMATION TECHNOLOGY SYSTEMS

The merger of the Finance and State Expenditure departments into a new department, the National Treasury, has had a significant impact on the organisation's information technology requirements. At the hub of Government business, the National Treasury requires additional, technologically advanced systems that allow faster and more efficient internal processes.

The National Treasury's new business requirements demand the re-evaluation of its information technology requirements and call for the reshaping of its information technology focus over the MTEF period. The Treasury is therefore busy restructuring the *Information Technology* unit, which will be completed in 18 months, and intends finalising a revised information technology strategic and service delivery plan that meets the Treasury's business requirements as set out in its strategic plan for the 2003 MTEF period.

Restructuring plans include the acquisition of the services required, in conjunction with the State Information Technology Agency (Sita) Information Technology Acquisition Centre. During the transition period, the information technology team will maintain the current information technology operational functions, ensuring quality service delivery to its clients – the National Treasury staff.

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

PERFORMANCE MANAGEMENT SYSTEM

The *Performance Management* unit facilitates the translation of the mission, vision and strategic objectives of the National Treasury into tangible outputs by maintaining a culture based on high performance.

The unit is currently refining and customising the Performance Management System to conform to the needs of the National Treasury. The Performance Management System would be utilised to quantify the performance of employees. Meritorious performance will be recognised and rewarded through performance bonuses and remuneration pay progressions.

OUTSOURCING OF SERVICES

As part of its strategy to raise internal efficiencies and maximise the use of resources, the National Treasury continually assess whether operations and service delivery may be improved by outsourcing non-core functions to those that have the appropriate expertise.

At present, the National Treasury outsources information technology operations and help-desk services, development and maintenance of financial systems, cleaning services and perimeter security services. The Department has decided to outsource its internal audit function to the consortium PricewaterhouseCoopers Inc. and MSGM Masuku Jeena Inc., in line with provisions set out in the Treasury Regulation 3.2.4.

IMPLEMENTATION OF THE PFMA

The Public Finance Management Act requires that the National Treasury:

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

The National Treasury has ensured a good implementation track record so far. The internal audit committee, established in 2002, has met a number of times and recently approved the internal audit plan. The internal audit function has been outsourced to the consortium PricewaterhouseCoopers Inc. and MSGM Masuku Jeena Inc. The latter is busy with the 2002/03 internal audit.

A risk-management assessment exercise has been completed and a fraud-prevention plan developed in line with PFMA and Treasury Regulation requirements. Internal controls and asset-management procedures have been implemented.

The National Treasury is one of the pilot departments for the new decentralised procurement system, aimed at improving procedures, transparency and meeting empowerment targets. An established Accredited Procurement unit is now in operation and further streamlining of procedures will continue with annual targets set regarding procurement from black economic empowerment and small-, micro- and medium-sized businesses. Key vacant positions need to be filled to drive this process forward over the next three years.

Key priorities this year include the finalisation of the Department's financial manual and further progress on National Treasury delegations.

Over the 2003 MTEF period, the National Treasury intends to review and enhance its implementation plan and interventions to ensure continual compliance with the PMFA. Such enhancements include:

- Reviewing the Audit Committee's Terms of Reference and Internal Audit Charter;
- Assessing and implementing the Treasury Risk Management Framework;
- Implementing the Fraud Prevention Plan;
- Reviewing and implementing internal controls;
- Enhancing asset management policies;
- Examining procurement processes and related matters; and
- Reviewing financial delegations in terms of Section 10 of the Public Finance Management Act.