National Treasury Strategic Plan

2005-2008

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National Treasury

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2005-2008

Republic of South Africa

April 2005

National Treasury

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STRATEGIC OVERVIEW

MINISTER'S STATEMENT OF POLICY AND COMMITMENT

Over the past 10 years Government has successfully implemented sound macroeconomic policies which have placed the South African economy on a sustainable economic growth path. Through our resolve and with the support and perseverance of our people we feel vindicated by our macroeconomic policies. Our growth forecast of breaking the 3% barrier — which was met with scepticism late last year — is now a consensus view among most economic analysts. We are mindful that macroeconomic stability is a necessary precondition, but not the only condition, for achieving the desired levels of economic growth. The challenge ahead is to work towards raising our growth levels further towards 6% by 2014.

We are, as President Thabo Mbeki rightfully reminded us in his State of the Nation address on 11 February 2005, a developmental state. We therefore cannot have a laissez-faire approach to development. Whilst maintaining economic stability, our focus has now shifted to microeconomic reform to address rigidities that are still prevalent in our economy and which hinder employment-creation opportunities needed to ensure better living conditions for all our citizens.

The mandate of this Government is to implement policies that bridge the economic divide between the rich and poor. The allocation of our public finances is therefore heavily skewed towards the poor and vulnerable. Our developmental agenda recognises the importance of direct income support in easing the immediate burden of poverty and deprivation, and investment in education, health, community infrastructure and basic municipal services. We will continue to support poor communities in their endeavours to seek economic opportunities and self-reliance.

In the 2005 Budget, education remains a priority. We have allocated additional resources to the Further Education and Training sector to increase our requisite skills base and R7 billion over a three-year period for the remuneration of competent teachers to improve the quality of education at schools.

The 2005 Budget also draws on the theme of transforming housing settlements into sustainable and viable communities, Government is setting aside R3 billion for municipal, social and policing infrastructure to be spent on building sports facilities, schools, clinics, police stations, roads, water and sanitation works, multi-purpose centres and child-care centres. A further R1,5 billion has been allocated to the Department of Housing to accelerate the pace of housing delivery. Safety and Security also remains a priority with an unequivocal commitment by Government to reduce the level of priority crimes by about 7 per cent a year.

In order to address past injustices, we have allocated further resources to complete the land restitution programme over the next three years. Once this restitution process is completed, the Department of Land Affairs will accelerate its land redistribution programme, whilst the Department of Agriculture will receive further resources to implement its AgriBEE programme to help revitalise the emerging black agricultural sector.

As Government we will continue to support black economic empowerment initiatives to broaden the representative base of the ownership of the means of production. In this regard, the South African Revenue Service will introduce a comprehensive small business tax package to simplify the regulatory environment for small businesses and provide support for micro-businesses.

The delivery of free basic municipal services forms an important part of Government's poverty alleviation strategy. However, immense challenges face local government in delivering high-quality services to all South Africans. Moreover, due to institutional difficulties and municipal resource constraints, the delivery of free basic services to the poor has not been uniform. Government is taking steps to rectify these institutional blockages and to build the capacity of municipalities to collect revenue and deliver services. As a result, adjustments to the local government equitable share will ensure that a high proportion of poor households receive free services at municipal level.

On the African continent, South Africa will continue to play a leading and supportive role in promoting the principles of NEPAD, namely to deepen democracy, promote peace and security and expand investment and intra-Africa trade. Under the auspices of the African Union, and through the African Peer Review Mechanism, the vision that we as Africans can by ourselves overcome poverty and degradation seems no longer a distant chimera.

It is however evident that progress towards achieving the Millennium Development Goals is slow. On present trends, Africa will miss all the MDGs in 2015. Consequently, as Africans we need to foster a new kind of partnership with the developed world. Our involvement in the Commission for Africa ensures that its recommendations complement the work undertaken by NEPAD, and will receive our continued support.

In our international engagements at the World Bank and IMF Meetings, at the United Nations, with Parliaments across Africa and the G8 countries, South Africa will amongst others advocate the realisation of the vision of NEPAD and the recommendations of the Commission for Africa.

Trevor A Manuel, MP
Minister of Finance

OVERVIEW BY ACCOUNTING OFFICER

Our ability to sustain and accelerate the gains we have made over the past decade will be accomplished through correct policy decisions, smart planning, disciplined implementation and, most importantly, hard work. This is the President's directive that the National Treasury willingly accepts under the leadership of the Minister of Finance. How we in the Treasury will achieve our outputs, and how these will contribute to the achievement of Government's strategic priorities, are described in the plan that we table for the 2005/06 to 2007/08 period.

In the Budget Review tabled alongside the 2005 Budget, we stated that the economy is stronger than it has been since the early 1980s, and that the capacity of Government to improve the lives of all is steadily being built. This was the result of deep institutional reforms and sound economic management. For the planning period ahead we need to further increase the rate of growth, and at the same time identify and tackle the challenges that prevent our country from realising its potential. Government's programme of action speaks directly to these challenges, which in the main include the need to increase our investment in economic and social infrastructure, lower the costs of doing business, produce more skilled people, and improve the quality of public service delivery. In addition, clear programmes that increase the level of investment in human development and bridge the divide between rich and poor are needed.

More specifically, work over the next five years will focus on analysing the impact of interest rate and exchange rate variability as well as that of microeconomic reform on growth prospects. These types of studies will provide greater certainty when reviewing fiscal and budget policy, and ensure greater predictability in our spending programmes over the medium to long-term.

How departments report on expenditure and the preparation of financial statements will undergo significant changes over the next five years and beyond. These reforms will form part of the migration plan to comply with the Generally Recognised Accounting Practice (GRAP) in terms of Section 216 of the Constitution, and in accordance with the need to improve accountability and transparency in the public sector.

Our ability to maintain and increase the levels of public spending over successive MTEF periods would not be possible without the correct design of tax instruments that can optimally fulfil their revenue-raising function. One of our key objectives in this regard will be the evaluation of provincial tax proposals. Another complementary strategy has been our prudent debt management strategy that has seen a progressive decline in debt service costs as a percentage of total government expenditure.

We will also continue to enhance intergovernmental fiscal relations between national, provincial and local spheres of government. In this regard we have seen a number of changes in the intergovernmental system announced in the 2005/06 budget. These changes include the introduction of new formulae for the distribution of provincial and local government equitable shares, the shift of social grant payments to the national sphere and the phasing out of the regional services council levies. The Division of

Revenue Bill also improves clarity on the role of national departments in managing conditional grants and improves reporting requirements. Greater focus will be given to improve the capacity of provinces and municipalities to deliver on the infrastructure budgets.

On the international front, we will contribute to deepen and extend economic linkages between African economies, work towards reforming the international financial architecture and help to shape the international-development policy agenda. The National Treasury is committed to provide policy advice, expertise and human capacity to the realisation of the objectives of the Commission for Africa.

Another element of our strategy is the improvement of our organisational environment. Key to this strategy is matching the current human and financial resources to the workload of the department. The development of appropriate policies to address the attraction and retention of skilled staff, management skills and improved coordination and communication will be a central focus of our organisational intervention over the medium term.

The policy objectives and outputs that the National Treasury can be held accountable for are set out in this strategic plan. We will endeavour to meet our mandate and exceed expectations.

Lesetja Kganyago
Director-General

VISION

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

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

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

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

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

MISSION AND OBJECTIVES

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

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

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

We promote transparency and enforce effective financial management.

VALUES

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

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

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

LEGISLATIVE MANDATE

With its role defined in 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

Job creation

Challenges faced by Government in growing the economy are still daunting. The major challenge is not only to increase per capita income over the next decade by 30% (a target approved by Cabinet in 2004) but also to increase the labour-absorption capacity of the economy. The aim thus is to focus growth on poverty reduction. As a result, Government is focusing increasingly on small business as the key to unlocking the growth and job creation potential of the economy. Jointly, with the South African Revenue Service, the National Treasury will address cumbersome procedural requirements and ease up the burdensome administration of tax laws. Further measures to improve the small-business climate will involve the relaxation of labour laws and environmental regulations.

Sector growth

Focus in the area of economic development will be largely influenced by the objective of Government to improve sector growth performances. As a result, various sectors have been earmarked for support by Government through the formulation and implementation of "sector development strategies". These sectors include chemicals, information and communications technology, construction, tourism, agro-processing, retail, and wood and paper.

Tax policy

Tax policy orientation has for some time been geared towards supporting a higher growth path for the South African economy. While a number of administrative changes have been introduced to ensure consistency, fairness and certainty, the Government has also provided tax relief for individuals and corporates.

To improve the tax system, several measures will be introduced on the taxation of motor vehicle allowances and medical schemes. Also, to encourage investment in fixed property, transfer duties will be reduced. Furthermore, the systematic reduction of the corporate tax rate will encourage corporates to invest in large-scale investment projects.

Municipal capacity

Government has been encouraging the view of local government structures as key delivery grid-points. However, capacity is not adequate and the need exists to strengthen this area for overall delivery of services to ordinary people - particularly in delivering infrastructure projects at local municipal level. Over time, the grant allocations to municipalities have increased, and will continue to do so. While the largest slice of revenue still goes to the provinces, grant allocations to the lowest denominator of government structures have nevertheless increased significantly over the years. This indicates a determined effort by Government to strengthen local municipal capacity to deliver. In future, it is anticipated that a review will be undertaken of conditional grants. A revision of the equitable share formula is also envisaged as is the falling away of the Regional Services Council levies during 2006.

Lowering the cost of doing business in South Africa

Prudent macroeconomic policy and debt management strategy have reduced Government's borrowing requirements, ensuring that the private sector is not crowded out of the capital markets. This has provided the private sector with a bigger scope of economic activity which is expected to contribute to higher growth and development. The debt management strategy of reducing debt costs subject to acceptable risk levels is in line with the broader Government objective, as announced by the President during the State of the Nation address, of reducing the cost of doing business. As a main player in the capital markets, the reduction in Government debt costs translates into a reduction of the cost of doing business.

State-owned entities

Regarding asset management, over the past year the emphasis has been on improving service delivery and operational efficiencies of state-owned entities. Government's focus includes the contribution that the state-owned entities are able to make in delivering infrastructure to enhance economic growth and poverty alleviation.

Supply Chain Management

The concept of "value for money" has had little emphasis in the public sector procurement process. The principles of Strategic Sourcing that have been introduced seek to achieve better value for money through industry analysis initiatives and enterprise development. This will improve consistency in the awarding of bids and bring about stability in the supply market, while contributing at the same time to Government's socio-economic policy objectives.

ORGANISATIONAL ENVIRONMENT

Arising from the National Treasury's strategic planning session conducted from 6-8 July 2004, five external strategic focus areas were identified:

- Promoting sustainable economic growth and work opportunities;
- Reducing poverty;
- Ensuring good governance and accountability;
- Promoting optimal allocation and utilisation of financial resources in all spheres of government; and
- Maintaining macroeconomic stability.

Also identified were four internal strategic priorities:

- Improving co-ordination and communication;
- Matching resources to workloads;
- Developing human resources strategies to address attraction and retention challenges; and
- Developing management skills.

Teams were established to develop charters and work plans focusing on these external strategic focus areas and internal strategic priorities. This process was completed at the end of 2004. Together with the Government's Programme of Action, these charters will provide the primary basis for the National Treasury's strategic direction in future. To give effect to this, organisational structures and work processes will need to be adapted within the National Treasury. This will require the adoption of a holistic approach based on teamwork. A further important aspect will be the need to align these strategic priorities with the Department's annual report and inputs for the Estimates of National Expenditure.

Appointed in February 2004, the Director-General of the National Treasury is in the process of building a management team that will take the Department into the next decade. While labour market conditions have complicated the attraction of scarce skills in certain areas, careful attention will be paid to developing a strong management team that reflects demographic realities in an equitable manner. An important element of this will be the development of capacity within the organisation.

During 2004, the National Treasury conducted an organisational climate survey to determine the following:

- The general "health status" of the organisation;
- Leadership approaches and management styles;
- Knowledge of and commitment to the organisational Vision, Mission, and Strategy Objectives;
- Quality and effectiveness of organisational relationships (interpersonal, inter-group

and intra-group);

- Quality, effectiveness and impact of organisational systems and procedures on each other;
- General perceptions on competency levels of personnel; and
- Effectiveness and efficiency of Corporate Services with regard to the organisation's operations and service delivery.

Workshops have been conducted to discuss results arising from the survey. The study will be used to guide the development of an organisational structure that is attuned to the needs of employees, client departments and institutions, Government and the economy in general.

A further aspect that has begun to yield dividends is that of establishing the Department as a learning organisation. One of the key elements is the internship programme. Twenty eight interns commenced their careers with the National Treasury during 2004. The National Treasury is in the process of becoming the employer of choice for aspirant young graduates.

RESOURCE PLAN
Expenditure estimates

Expenditure estimates
Table 1: National Treasury

Programme	Adjusted appropriation	Revised estimate	Medium-term expenditure estimate		
R thousand	2004/05		2005/06	2006/07	2007/08
1. Administration	143,598	123,598	111,816	117,809	122,406
2. Economic Planning and Budget Management	150,139	140,139	151,761	163,056	170,676
3. Asset and Liability Management	53,876	43,876	49,722	45,934	48,221
4. Financial Management and Systems	352,455	322,455	281,999	370,723	389,661
5. Financial Accounting and Reporting	65,180	55,180	85,634	98,519	104,032
6. Provincial and Local Government Transfers	3,934,260	3,904,260	4,279,513	4,666,776	5,872,682
7. Civil and Military Pensions, Contributions to Funds and Other Benefits	2,063,966	1,983,966	2,178,805	2,315,532	2,436,308
8. Fiscal Transfers	7,258,442	7,228,442	6,851,458	7,290,662	7,668,890
Subtotal	**14,021,916**	**13,801,916**	**13,990,708**	**15,069,011**	**16,812,876**
Direct charge on					
National Revenue Fund	**213,700,774**	**212,984,774**	**187,831,191**	**203,360,275**	**217,058,779**
Provinces Equitable Share	164,083,774	164,083,774	134,706,191	146,757,275	157,677,779
State Debt Costs	49,617,000	48,901,000	53,125,000	56,603,000	59,381,000
Total	**227,722,690**	**226,786,690**	**201,821,899**	**218,429,286**	**233,871,655**
Change to 2004 Budget estimate	3,377,557	2,441,557	(40,603,044)	(41,524,944)	(39,080,287)

Economic classification	Adjusted appropriation	Revised estimate	2005/06	2006/07	2007/08
Current payments	**51,698,662**	**50,852,662**	**55,199,879**	**58,884,333**	**61,781,119**
Compensation of employees	197,617	172,617	254,527	282,005	304,882
Social contributions for retired employees	1,359,037	1,299,037	1,417,965	1,509,042	1,589,494
Goods and services	525,008	480,008	402,387	490,286	505,743
of which:					
Consultants and contractors	*85,755*	*70,755*	*50,782*	*52,117*	*47,823*
Travel and subsistence	*38,907*	*28,907*	*53,386*	*56,400*	*58,577*
Communication	*9,405*	*9,405*	*8,555*	*9,220*	*9,792*
Inventory	*13,144*	*13,144*	*13,981*	*14,942*	*15,911*
Computer services	*305,458*	*285,458*	*209,745*	*290,358*	*303,360*
Audit fees external	*16,650*	*16,650*	*9,749*	*10,547*	*10,801*
Personnel agency fees	*5,170*	*5,170*	*2,962*	*3,209*	*3,402*
Training and staff development: external	*8,721*	*8,721*	*19,654*	*20,692*	*21,637*
Interest and rent on land	49,617,000	48,901,000	53,125,000	56,603,000	59,381,000
Financial transactions in assets and liabilities	–	–	–	–	–
Transfers and subsidies to:	**175,991,777**	**175,901,777**	**146,609,329**	**159,532,402**	**172,077,575**
Provinces and municipalities	168,018,616	167,988,616	138,985,831	151,424,159	163,550,588
Departmental agencies and accounts	6,782,379	6,782,379	6,402,817	6,809,282	7,158,896
Foreign governments and international organisations	462,046	422,046	436,896	470,666	500,382
Public corporations and private enterprises	40,001	40,001	40,000	40,000	40,000
Non-profit institutions	55	55	58	62	65
Households	688,680	668,680	743,727	788,233	827,644
Payments for capital assets	**32,251**	**32,251**	**12,691**	**12,551**	**12,961**
Buildings and other fixed structures	–	–	–	–	–
Machinery and equipment	20,853	20,853	12,417	12,196	12,572
Software and other intangible assets	11,398	11,398	274	355	389
Total	**227,722,690**	**226,786,690**	**201,821,899**	**218,429,286**	**233,871,655**

Expenditure trends

Most of the Department's direct expenditure goes towards transfer payments, including provincial and local government transfers, civil and military pensions payments, the South African Revenue Service and the Secret Services.

Between 2001/02 and 2004/05, expenditure increased from R8,2 billion to R14 billion, at an annual average rate of 19,8 per cent. The increase went mainly towards transfers, and there were also significant increases in the Department's core programmes, those that fund its own operations. Expenditure is expected to fall slightly in 2005/06, mainly due to a fall in transfers to SARS, and then is expected to start rising again, to reach R16,8 billion in 2007/08. Much of the future increase will go towards provincial and local government transfers.

Included in the additional allocations of the 2005 budget are R68 million in 2006/07 and R76 million in 2007/08 for increased fiscal transfers to Lesotho, Namibia and Swaziland, and R10 million and R20 million in 2006/07 and 2007/08 for the Financial Intelligence Centre.

Direct charges from the National Revenue Fund

The Department is responsible for the main statutory transfers of funds to provincial governments, under the Constitutional requirement that they obtain an equitable share of revenue raised through national taxes. The equitable share transfers to provinces will decrease in 2005/06 as a result of the new Social Assistance Act (2004) and the Social Security Agency Act (2004), which require the centralisation of the social grants functions currently with provinces in national government. From 2005/06, these grants will be shown as conditional grants from the Department of Social Development. More information on these transfers can be found in chapter 7 and annexure E in the 2005 Budget Review and the 2005 Division of Revenue Bill. In addition, the National Treasury vote includes provision for servicing Government's debt obligations, which are direct charges against the National Revenue Fund in terms of section 73 of the PFMA. Expenditure on state debt costs is expected to increase at an average annual rate of 6,7 per cent over the next three years. In 2004/05, expenditure on state debt costs will be R1,5 billion lower than expected in the 2004 Budget, mainly due to lower domestic interest rates and lower foreign interest payments due to the appreciation of the rand.

PROGRAMME STRATEGIC PLANS

PROGRAMME 1

ADMINISTRATION

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

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

The programme is divided into four 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; and
- *Corporate Services* supports the administration and smooth running of the Department.

Policy developments

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

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

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

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

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

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

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

Strategic support to the Director-General is directed at three critical areas: managerial, policy and administrative support.

Dedicated capacity has recently been established in the office of the Director-General to oversee and facilitate participation by the National Treasury in the Forum of South African Directors-General and the various sectoral clusters. The aim is to maximise the National Treasury's contribution to the development of action plans giving effect to South Africa's economic and social development policies.

A further development is the management and coordination support provided by the Chief Operating Officer to the Director-General.

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

The *Corporate Services* Division is a strategic enabler. It provides and sustains an integrated range of innovative solutions designed and implemented to enable the National Treasury to achieve its strategic and operational goals.

The Division consists of a number of functional support units. These are Human Resources, Finance (including Procurement), Legal, Security, Facilities Management and Information Technology.

The centralisation of service units has contributed to improved effectiveness in governance and lowering of the administrative cost base. This has been achieved by eliminating duplication of effort and resources. Centralisation also provided the opportunity to standardise service levels.

It is envisaged that over the MTEF period the division will develop an approach that prioritises customer service. While much work needs to be done to sustain acceptable levels of efficiency and excellence, the division will endeavour to reposition itself from "Service Provider" to "Solutions Partner".

To facilitate this repositioning, the division has reformulated its strategy to clarify its support of the overall goals of the National Treasury. It is envisaged that this role will hinge on the following critical areas:

- To foster increased strategic capabilities through strategy development, innovation, collaboration and a client-driven approach;
- To ensure delivery of cost-effective transactional services as a key financial output

through the achievement of an Unqualified Audit Report and a reformulated Corporate Services Governance framework;

- To develop a client-driven approach;
- To further improve support for internal processes by maintaining and enhancing systems and processes, developing a secure work environment to promote innovation and productivity. To contribute to the establishment of a knowledge management culture and implement an efficient IT architecture that supports the achievement of the National Treasury's goals; and
- To support Learning and Growth objectives by developing strategic capability throughout the National Treasury. A Leadership Development Plan and a Talent Management Plan (which also gives attention to the establishment of a Competency Framework for the National Treasury) will be designed and implemented.

The Human Resources Management unit is driven by its mission of making the National Treasury an "employer of choice". Over the next five years, the National Treasury will be developing and implementing strategies to attract, motivate, develop and retain talent. This includes ensuring that the environment is non-discriminatory and supportive of the implementation of people management strategies.

Proactive steps will be undertaken to ensure a high retention rate of staff, including through using the findings of regular employee satisfaction surveys.

Key focus areas for the future will entail the development and finalisation of critical HR Policies and Systems and the implementation of the new Performance Management and Personal Development Systems. The recruitment, selection and placement function has been repositioned to ensure that National Treasury is marketed as an "employer of choice".

The *Financial Management* unit focuses on maximising compliance with all relevant financial statutes and regulations, most importantly the Public Finance Management Act (1 of 1999) (PFMA). The unit has largely achieved compliance. The focus going forward will be on maintaining compliance and enhancing service delivery to clients. During this period the Chief Financial Officer resigned and the Department is in the process of appointing a new CFO. In line with good governance the decision was made to establish a Risk Management function reporting directly to the Chief Operating Officer. As a result much effort has gone into reorganising the unit.

The *Security and Facilities Management* unit was reorganised, resulting in two distinct units: *Security Management* and *Facilities and Maintenance Management*.

The *Information Technology* unit is responsible for the design, implementation and maintenance of our technology architecture. This unit has grown from strength to strength over the past year. A draft proposal on the repositioning of this function has been prepared and is being considered by senior management. To ensure effective service delivery, existing systems and processes have been refined. This has been achieved with the assistance of two outsourced contract houses and the State Information Technology Agency.

The *Legal Services* unit provides a comprehensive legal support function to the Department and the Ministry. National Treasury intends to strengthen the unit over the next three years to enable it to continue to provide legal services on a wide range of domestic and international law.

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	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
Minister and Deputy Minister of Finance (Parliamentary Office)	A procedurally sound and politically astute Parliamentary Unit	Achieving a proactive relationship with Parliament	Unit providing support to new Members of Parliament in developing relationship with National Treasury	Proactive support established	Review done
	Extensive engagement with the Legislature on the budget reform processes, with specific reference to the Constitutional requirement for a process to deal with money Bills	The number of dialogue/meetings held between the National Treasury and Parliament on the budget reform processes, with specific reference to the Constitutional requirement for legislative powers and processes to amend money Bills	Legislation that facilitates amendment to money Bills promulgated	Monitoring feedback from all role players for evaluation of Act	Review done
	Monitoring and facilitating promulgation of financial legislation and policies that are presented to the Legislature	Monitoring the passage of legislation from drafting to enactment	Monitoring and facilitating promulgation of the Financial Services Bill (establishing a single financial Regulator) and the Accounting Profession Bill	Monitoring and facilitating promulgation of identified financial legislation and policies	Review done
	Providing continued parliamentary service to the Ministry and its departments	Satisfaction of the Minister, Deputy Minister and the Director-General regarding quality of parliamentary services provided		100 per cent satisfaction	
Management (Office of the Director-General)	National Treasury's strategic direction aligned to the country's development policy needs	Strategic plans developed by the National Treasury and approved by Parliament.	70 per cent achievement of target's set out in National Treasury's strategic plan.	80 per cent achievement of target's set out in National Treasury's strategic plan.	90 per cent achievement of target's set out in National Treasury's strategic plan.

Subprogramme	Output	Measure/Indicator	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
Corporate Services	Delivery of efficient, cost-effective transactional services	Attainment of an unqualified audit report	July 2005	July 2006	July 2007
		Attainment of an unqualified audit opinion without an "emphasis of matter"	July 2005	July 2006	July 2007
	Design and implementation of a Corporate Services (CS) Governance Framework	Operational policies, processes and procedures documented	Operational policies, processes and procedures documented in 50 per cent of Corporate Services	Outstanding operational policies, processes and procedures documented	Review
		Improved processes documented and implemented	Opportunities for improvements identified in 50 per cent of CS Develop associated implementation plan Start implementation	Opportunities for improvements identified in remaining 50 per cent of CS Develop associated implementation plan Continue with implementation of improved processes	Review implementation of improved processes
		Opportunities for cost reduction identified and included in processes	Investigate implications of cost reductions Implement	Evaluation of cost-optimisation opportunities	Ongoing evaluation and inclusion of cost-optimisation opportunities into operational processes
	Development and implementation of Integrated Client Service Strategy	Client Charter and Service Standards approved	June 2005	Revisit and revise the Service Charter & Service Level Agreements (SLA)	Revisit and revise the Service Charter & SLA's
		Phased implementation of Service Standards, with a supporting measurement and evaluation system established	Initiate implementation	Continued implementation	Finalise implementation
	Facilitate the building of strategic partnerships with stakeholders	Strategic support and change management plans developed for stakeholders	Stakeholder needs analysis	Design plan of action Start implementation	Implementation continued Monitor and evaluate

Subprogramme	Output	Measure/Indicator	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
	Establishment of a working environment that encourages innovation and productivity	Identify opportunities to provide innovative solutions to client needs.	Provide input to DPSA on the issue of dual career paths within the public sector (Management / Technical / Specialist)	Design implementation plan Start implementation	Monitor and evaluate
	Creation of a secure working environment	Full compliance with the Minimum Information Security Standards (MISS)	Security policies and procedures finalised and approved	Security policies and procedures implemented	Review of Security Policies and procedures
		Full compliance with the Occupational Health and Safety (OHS) and emergency situation regulations	OHS policies and procedures finalised and approved	OHS policies and procedures implemented	Review of OHS policies and procedures
	Contribute to the establishment of a knowledge management culture in National Treasury	Knowledge Management (KM) framework for CS implemented	Research and document KM framework Design a knowledge repository	Identify knowledge areas and develop knowledge libraries	Ongoing content management of knowledge libraries
		An agreed centralised archiving system for National Treasury implemented. *(As component of Treasury's Document Management System)*	Facilitate the documentation of archiving process flows for National Treasury	Initiate implementation of the agreed solution to 25 per cent completion	Continued implementation of the agreed solution to 70 per cent completion
	Design, develop and implement an IT architecture that supports achievement of Treasury's objectives Maintenance of IT architecture	Implementable Strategic plan for IT developed and implemented	Documented IT Strategic plan	Commence with rollout of IT Strategic Plan	IT Strategic Plan 60 per cent implemented

Subprogramme	Output	Measure/Indicator	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
		Effective IT solutions provided as per agreed SLAs	100 per cent implementation of mobile environment – Tele-working	100 per cent implementation of Service Desk	100 per cent implementation of wireless infrastructure
			50 per cent implementation of Service Desk	100 per cent implementation of new Wide Area Network solution	100 per cent consolidation of all IT systems
	Development of a strategic capability	An Integrated Talent Management Plan	Research and develop a Talent Management strategy	Implementation	Review and improve
		A Leadership Development Plan	Research and develop a Leadership Development plan	Implementation	Review and improve
	Contribute to fostering a Performance Management Culture	Adherence to Performance Management Policy Guidelines	Create capacity within Corporate Services to facilitate alignment of employee Performance Agreements with Treasury objectives Develop a competency framework for Treasury	Conduct awareness campaigns and facilitate training and development initiatives throughout Treasury Commence rollout of competency framework	Audit, monitor and evaluate

RESOURCE PLAN

Expenditure estimates

Table 2: Administration

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2004/05	2005/06	2006/07	2007/08
Minister [1]	791	843	898	942
Deputy Minister [2]	585	623	663	696
Management	26,406	27,367	28,487	30,513
Corporate Services	115,816	82,983	87,761	90,255
Total	**143,598**	**111,816**	**117,809**	**122,406**
Change to 2004 Budget estimate	41,719	7,088	6,630	5,668

1 Payable as from 1 April 2004. Salary: R633 061. Car allowance: R158 265.

2 Payable as from 1 April 2004. Salary: R467 765. Car allowance: R116 941.

Economic classification				
Current payments	**119,676**	**108,055**	**114,732**	**118,816**
Compensation of employees	44,978	57,911	61,933	65,847
Goods and services	74,698	50,144	52,799	52,969
of which:				
Consultants and contractors	*12,279*	*11,067*	*13,708*	*11,569*
Travel and subsistence	*9,695*	*12,421*	*13,274*	*14,080*
Communication	*5,053*	*2,283*	*2,478*	*2,696*
Computer services	*5,194*	*3,210*	*3,345*	*3,759*
Audit fees external	*6,847*	*6,148*	*6,709*	*6,764*
Training and staff development: external	*2,701*	*2,611*	*2,616*	*2,846*
Financial transactions in assets and liabilities	–	–	–	–
Transfers and subsidies to:	**281**	**284**	**195**	**203**
Provinces and municipalities	141	34	35	38
Departmental agencies and accounts	140	140	160	165
Households	–	110	–	–
Payments for capital assets	**23,641**	**3,477**	**2,882**	**3,387**
Buildings and other fixed structures	–	–	–	–
Machinery and equipment	12,243	3,277	2,632	3,087
Software and other intangible assets	11,398	200	250	300
Total	**143,598**	**111,816**	**117,809**	**122,406**

Details of transfers and subsidies:				
Departmental agencies and accounts				
Current	**140**	**140**	**160**	**165**
Finance, Accounting, Management, Consulting and other Financial Services (Fasset) Sector Education and Training Authority	140	140	160	165
Total departmental agencies and accounts	**140**	**140**	**160**	**165**

Expenditure trends

Expenditure more than doubled between 2001/02 and 2004/05, although this masks some fluctuations in total expenditure, in part due to one-off costs for the occupation and renovation of the 240 Vermeulen Street building. Expenditure is expected to fall in 2005/06 by 22 per cent mainly due to the completion of the refurbishment of the 240 Vermeulen Street and 40 Church Square buildings, and then increase slowly across the two outer years (2006/07: 5,4 per cent and 2007/08: 3,9 per cent) as a result of normal inflationary adjustments. Included in the 2005/06 allocations are budgeted refurbishment and renovations for the Centurion and 120 Plein Street, Cape Town buildings.

PROGRAMME 2

ECONOMIC PLANNING AND BUDGET MANAGEMENT

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

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

- *Public Finance* manages the National Treasury's relations with other national departments, provides budgetary support to departments, and advises the Minister and the rest of the National Treasury on departmental and Government cluster matters. Focus areas include: departmental and sectoral financing and budgeting; monitoring financial management, expenditure and service delivery; policy analysis and policy development support; and, through the Technical Assistance unit, project management support for development programmes and initiatives;
- The *Budget Office* provides fiscal policy advice, oversees expenditure planning and the national Budget process, leads the 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 budgeting, planning, reporting and financial management; and
- *Economic Policy and International Financial Relations* is responsible for providing macroeconomic analysis and policy advice, managing international financial relations, formulating tax policy and legislation, and coordinating with the South African Reserve Bank on various areas of monetary policy, and with the Financial Services Board on the regulation of the financial sector.

Policy developments

Budget Office

The Programme of Action outlined by the President in May 2004 and reinforced in the State of the Nation address in February 2005 emphasised the need to raise the level of economic growth as a critical objective necessary for the attainment of Government's objectives over the next five years. The Programme of Action lists a number of specific objectives of economic policy for the period ahead and, in some cases, provides clear time frames for their attainment.

The key objectives include:

- Maintenance of the present broad macroeconomic stance and focus on microeconomic reforms;

- Increase the levels of investment in infrastructure;
- Lower the cost structure in the economy and enhance levels of competition;
- Develop sector strategies;
- Enhance international economic relations;
- Enhance economic inclusion;
- Provide the skills base needed by the economy;
- Foster a more equitable geographic spread of economic activity;
- Coordinate second-economy interventions; and
- Build the capabilities of a developmental state.

Drawing on this Programme of Action, the National Treasury strategic planning exercise identified the promotion of economic growth and work opportunities as central to the reduction of poverty. The strategic planning exercise also highlighted the need to improve the management of public resources, improve governance and accountability, and to maintain macroeconomic stability as key objectives for the years ahead.

The *Economic Planning and Budget Management* programme in the National Treasury covers areas of work and functions that impact directly and indirectly on the priorities outlined above.

Budget Office

The national Budget provides resources for the implementation of the Programme of Action, taking into account available funds, capacity in Government and quality of implementation plans developed by departments. Alignment between the Budget and Government's overall policy priorities is the main measurable objective of the *Budget Office*. The main output of the *Budget Office* is the annual Budget and Medium Term Expenditure Framework that the Minister of Finance tables in Parliament in February and October respectively.

Much of the work of the *Budget Office* is focused on coordinating Government's spending and revenue plans with its longer-term policy and strategic priorities. A key element of the budget reform programme is increased political oversight over the annual budget process and improving the usefulness of related documentation to enhance public and legislative oversight. The *Budget Office* also provides secretarial and professional support to the Minister's Committee on the Budget and the Treasury Committee, both formal subcommittees of Cabinet.

Measurable objectives for each programme, in line with the Public Finance Management Act (1 of 1999) (PFMA), have now been published for three years. In many departments these measurable objectives are clear and allow for adequate oversight by the legislatures. In some cases however, more work needs to be done to improve the quality and usefulness of these objectives. The *Expenditure Planning* unit in the Budget Office will continue to work in partnership with national departments and provinces, enhancing and strengthening the measurable objectives, output measures and service-delivery target information as set out in the annual *Estimates of National Expenditure* and provincial budget statements. Collaboration with other African countries in budget reform and expenditure management is a further area of increased activity.

A sound fiscal framework is a necessity for the long-term sustainability of the public finances. Through an expansionary budget framework, Government is able to provide an increasing envelope with which to fund priority programmes. Within an expansionary budget framework, increasing the level of infrastructure spending would support economic growth in the future. Recognising this, the *Budget Office* continues to strengthen fiscal analysis capacity, deepening understanding of fiscal trends in the economy and their effect on long-term growth and investment. Improving the planning, coordination and monitoring of infrastructure spending and projects of a capital nature is a key priority for the year ahead.

Sound public sector personnel policy is also important for the improvement of public services. In 2004, the Department of Public Service and Administration and the National Treasury completed a comprehensive review of the governance of public entities. Based on the review, over the next two years, Government will develop policy, legislation and institutional arrangements to improve the governance and oversight of public entities and management within these entities.

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

In the public-finance statistics arena, a new economic classification for the Budget and a corresponding new Chart of Accounts were introduced in 2004. Refinement and consolidation of this reform will continue over the year ahead. A key priority over the next three years is to broaden the scope of public finance statistics to include non-business public entities. The National Treasury hopes to be able to produce a consolidated budget for national Government by 2008.

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

Public Finance

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

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

The National Treasury's ongoing fiscal reform is aimed at promoting sustainable growth and development and poverty reduction, and at improving budgetary transparency and financial management. The Treasury continues to develop monitoring and reporting systems to increase transparency and accountability, and thus improve service delivery. Transforming public-sector financial management is a key objective of the National Treasury. The Public Finance units 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.

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

- Assistance to the Social Development Department relating to the establishment of a national Social Security Agency and the implementation of monitoring systems to comply with the Social Assistance Act and new provisions in the Division of Revenue Bill;
- Ongoing support for joint intergovernmental technical committees in the health, education and social development functions;
- Support to the Departments of Education and Labour relating to the consolidation and renewal of further education colleges and the strengthening of the skills development programme;
- Restructuring and financial consolidation of higher education institutions, and to introduction of the new higher education financing arrangements; including the appropriate funding levels for the National Student Financial Aid Scheme;
- Participation in interdepartmental research and policy development relating to demographic and employment trends, income distribution and the incidence of public expenditure and revenue; and

- Health sector reform, including the oversight and regulation of the medical schemes industry, financing and management of public health services and the implementation of the comprehensive HIV and Aids strategy.

Much of the work of the *Economic Services* unit is focused on strengthening infrastructure investment, improving the capacity of regulatory entities, and sharpening the growth and employment impact of Government programmes in the economic sector. Key activities include:

- Policy and financing of rural development and agricultural support for small farmers, targeted particularly at beneficiaries of land reform programmes;
- Implementation of the new housing strategy and enhancing coordination of investment in community infrastructure;
- Supporting the development of policy options for fiscal support for broad-based black economic empowerment;
- Assistance to the Department of Trade and Industry in the adjudication of projects qualifying for critical infrastructure funding support and oversight of programmes relating to industrial development zones;
- Development of regulatory impact assessment capacity and improved oversight of administered prices;
- Support for the Department of Water Affairs and Forestry in its review of options for funding and governance of water resources and services;
- Support for the national research and development strategy, focusing on improving the performance of the science councils and the policy impact of public spending in this sector; and
- Review of options for financing public transport infrastructure and commuter services.

The *Protection Services* unit contributes to policy and budget planning in part through its role in an interdepartmental review team of the integrated justice sector cluster. Projects and initiatives include:

- Ongoing support for programmes aimed at improving court management, increasing case-flow and raising conviction rates;
- Ongoing support for research and planning aimed at the rehabilitation of offenders to reduce rates of recidivism and the implementation of measures to reduce overcrowding in prisons;
- Support for the development and implementation of personnel policies that will improve performance of the integrated justice sector in a holistic manner;
- Support for steps to enhance security at strategic national points such as ports, land border posts, airports and certain public buildings;
- Oversight of the special arms procurement programme of the Souht African National Defence Force and assistance relating to budgeting and financing peace support

operations; and

- Reform of the budgeting and parliamentary oversight of Constitutional institutions.

The *Administrative Services* unit has the following challenges for the year ahead:

- Assisting the Public Works Department in managing its property portfolio and putting Government accommodation services on a business-oriented footing;
- Supporting the investment in human resource capacity, infrastructure and information technology of the Department of Home Affairs, and improvement of its service delivery and management systems;
- Supporting and assisting with the implementation of the African Agenda of Government, and improved financial management and acquisition of foreign property by the Department of Foreign Affairs;
- Assistance to the Department of Provincial and Local Government in its oversight of local government, the management of grants and in addressing financial aspects of disaster management; and
- Assistance to Statistics SA in budgeting and planning for enhanced household surveys, improving the quality of economic statistics and the next national census.

Co-funded by the European Union, the *Technical Assistance* unit supports the work of the Public Finance unit. Its work includes support for project management and improving capital project planning and implementation, particularly related to provincial infrastructure investment and the implementation of key initiatives of the Social Development and Justice cluster departments. Support for Government's participation in the 2010 FIFA World Cup will receive attention in the next five years.

Intergovernmental Relations

The *Intergovernmental Relations* division coordinates fiscal relations between the national, provincial and local government spheres, and promotes sound provincial and municipal budget and financial management, thus playing a key role in developing South Africa's intergovernmental fiscal system.

About 62 per cent of non-interest allocations on the national Budget take the form of transfers to provincial and local governments, placing them at the forefront of social and basic service delivery. These allocations total R226,4 billion in 2005/06, R249,0 billion in 2006/07 and R269,7 billion in 2007/08.

The division is responsible for preparing all grant allocations and formulae for provincial and local government budgets, including the annual *Division of Revenue Bill* (including Annexure E and appendices of all municipal allocations) published as part of the national Budget. Immediately after the national Budget, and once all nine provinces have tabled their own budgets, the division produces the *Intergovernmental Fiscal Review*, which provides a consolidated review of the budgets of all nine provinces and 284 municipalities.

The division also monitors the implementation of provincial budgets, and those of selected municipalities, and compiles a comprehensive database of all such information.

Quarterly spending numbers and a detailed analysis for the second, third and fourth quarters are also published regularly, with the expectation that all legislatures will use such information to hold departments to account for their performance. With regard to the provincial sphere, the division works closely with provincial treasuries to achieve stable provincial finances - with budget and monthly reporting systems now deeply rooted. Budget reforms continue, with the development of uniform sector budgets and strategic plan formats, allowing for more comparability between provinces. Further improvements include the development of performance indicators for each sector and more uniform annual reports. Similar reforms are planned for municipal budgets, as the Municipal Finance Management Act (56 of 2003 (MFMA) is implemented.

Intergovernmental Relations is responsible for developing the overall fiscal framework for provinces and municipalities, including their taxation and borrowing powers. The 2005 Budget makes significant changes to the intergovernmental fiscal system, including the introduction of new formulae for the distribution of the provincial and local government equitable shares, the shift of social security grants to the national sphere and the phasing out of Regional Services Council levies. The division will continue the review process for the 2006 Budget, by considering replacement taxes or grants to replace services levies. It will also focus on assessing the impact that restructuring of the electricity industry will have on municipal finances. With regard to provinces, the review of conditional grants, particularly the health grants, will be prioritised by the division. The division also regularly assesses sectoral policies affecting provincial and local spheres of government, to ensure that they are affordable, and consistent with the fiscal framework for these two spheres.

With the large increase in provincial and municipal infrastructure budgets, the main focus over the medium term will be to modernise and improve the system of infrastructure delivery to accomplish government objectives to alleviate poverty and provide basic services. The Infrastructure Development Improvement Programme is being rolled out to key infrastructure provincial departments such as education, health, roads and public works.

One of the challenges facing government is the implementation of the MFMA. Implementation of the Act is being phased in since it took effect on 1 July 2004. MFMA training has been undertaken at all municipalities, with district- and area-based training undertaken during 2004 and early 2005 concentrating on budgeting and reporting. Training DVDs, produced by intergovernmental staff, have been distributed to all Mayors, Municipal Managers and finance officers in all 284 municipalities, and 9 provinces, along with other key stakeholders. A Level 6 South African Qualifications Authority (SAQA) accredited financial management qualification was approved late last year consisting of 19 unit standards that deal with various aspects of financial management in the public sector. Municipal officials will be required to undergo competency testing as from 2006.

The division is also responsible for administering Programme 6 – *Provincial and Local Government* Transfers, which provides for the provincial infrastructure grant, and the local government financial management and restructuring grants.

Economic Policy and International Financial Relations

The *Economic Policy and International Financial Relations* division undertakes policy analysis and engages in consultation and collaborative work in the areas of:

- Macroeconomic policy;
- International economic policy and relations with multilateral institutions;
- Tax policy; and
- Financial policy and regulation.

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

A key responsibility of the team is the production of macroeconomic forecasts, in particular on growth, the external account and inflation. These forecasts inform economic policy, the fiscal framework, tax forecasts and debt management strategy. The Treasury is in the process of developing a Computable General Equilibrium (CGE) modelling capability to analyse the welfare and distributional effects of Government's policy decisions. The process of developing the model, testing and refining it is ongoing, but the model is already being used to assess the impact of policy decisions.

In 2003, key changes were introduced to the inflation-targeting framework to enhance its overall contribution to a sound macroeconomic environment in South Africa. In the years ahead, work will continue to facilitate the implementation of the framework, providing for maximum transparency in the management of the framework. While the Treasury sets the broad policy framework for monetary policy, the inflation-targeting framework is implemented in collaboration with the South African Reserve Bank, which has instrument independence in the operations of monetary policy. A number of technical committees exist between the Treasury and the Reserve Bank to improve policy coordination in areas of inflation targeting, reserve management, financial sector regulation and cash management.

In 2004 the National Treasury, in collaboration with other Government departments, took a policy framework to Cabinet on administered prices. The broad policy stance outlined in this memo and reiterated in Government's Programme of Action is to reduce the costs of doing business in South Africa through the efficient setting of prices, sound regulation and increased competition. However, the memo noted that price setting must also take account of investments needed to improve long-term capacity of the economy. The *Macroeconomic Policy* unit oversees the implementation of this policy, even though responsibility for its implementation is spread across Government and state enterprises.

Further work will be undertaken in the area of policy design to promote savings by both households and the corporate sectors. In addition, the division is actively participating on a range of task teams engaged in the implementation of the agreements set out in the Financial Sector Charter. The primary focus of the National Treasury in these teams is to reinforce the developmental agenda in each of the task teams and to ensure the most efficient, growth-enhancing intermediation of the nation's scarce resources.

The division also represents the National Treasury in several domestic and international bodies and standing committees, including the National Economic Development and Labour Council, 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 advisory function to Government, the unit must design tax instruments that can optimally fulfil their revenue-raising function, achieve economic and allocative objectives and strengthen redistributive and social policy functions at the same time.

In formulating tax policy, there is a need to align the generally accepted principles of a good tax system with government's current macroeconomic and fiscal policy objectives. In designing tax policy, co-operation between the South African Revenue Service (SARS) and National Treasury is of utmost importance, as is daily interaction with the corporate sector and the general tax-paying public.

Since 1994, consistent tax policy and administrative practices have been initiated, aiming to broaden the tax base by improving tax administration and eliminating ineffective tax incentives. This has led to electronic filing and payments, a capital gains tax, residence-based (as opposed to source-based) taxation, and a risk management approach to compliance. Tax legislation is being drafted by expert committees composed of staff from the National Treasury and SARS, with a clear focus on efficient and internationally competitive taxation strategies. Anti-avoidance provisions are included during the drafting to make sure that there is better compliance.

The South African economy has benefited from a decade of tax base-broadening reforms and improvements in revenue collections, enabling Government to grant by 2004/05 close to R78 billion in tax relief. Tax relief has contributed to rising household consumption expenditure, boosted economic growth, targeted fixed investment growth and promoted small enterprise development.

Most of the 2005/06 fiscal year will be spent on giving legislative effect to the tax policy proposals announced in the 2005 Budget. These announcements include tax measures to encourage medical scheme membership, revisions to motor vehicle allowances and refining incentives to the film industry. In addition, the *Tax Policy* unit will continue to play a key role in determining the tax treatment of retirement savings, which need to be synchronised with reforms of the prudential regulatory framework pertaining to the pension fund industry, and will lead the process on the taxation of mineral royalties. Government also has to give legislative effect to the tax commitments required to stage the 2010 World Cup. To build on the initiatives announced in the 2005 Budget to aid small businesses, the unit will explore further avenues to lower the financial and regulatory costs to small businesses in order to stimulate growth and employment.

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

The Treasury is represented on the *Financial Sector Charter* council. This charter, a good example of an agenda for broad-based empowerment, emphasises the delivery of financial services to low-income households, the need for investment in human resource development, infrastructure and black economic empowerment in other sectors. Special mention is also made of the role of the financial sector in increasing the delivery of housing to middle-income groups. The unit participated in the development of the Mzansi bank account for low-income individuals and will be engaged in 2005 in the development of similar products in the insurance and retirement savings environment.

The unit is responsible for liaison between the National Treasury and the South African Reserve Bank on matters related to bank supervision, financial stability and the national payments system. It is also responsible for liaison between the National Treasury and the Financial Services Board, which supervises the non-banking financial services sector under the policy direction of the Minister of Finance.

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

In pursuit of the unit's strategic objectives, participation in and contributions towards the working of regional and international forums such as the SADC, the Group of 20, the International Organisation of Securities Commissions (IOSCO), Basel and the Financial Action Task Force (FATF), are an important component of work conducted. The unit also engages with regional organisations, such as the Committee of Insurance, Securities and Non-banking Financial Authorities, a subcommittee of SADC.

Important projects include: the issuance of a retirement fund reform discussion document, with a view to ultimately rewrite the Pension Funds Act; release of draft legislation on second-and third-tier banking and co-operative banks; involvement in the Auditing Professions Bill; and research into the establishment of a deposit insurance scheme for South Africa.

The Securities Services Bill and Financial Services Ombud Schemes Bill have also recently been enacted, after passing through the parliamentary process during 2004.

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, reforming the international financial architecture and shaping the international-development policy agenda.

The scope of engagement on international economic issues has widened considerably in the past year. The National Treasury continues to engage actively with multilateral institutions, including the International Monetary Fund (IMF), the World Bank, the SADC, the African Union, the G20 and G24, the United Nations and the Commission for Africa. Over the period ahead priority issues will include development policies for African economies and increasing the level of aid flows. The intent is facilitated through Minister of Finance Trevor Manuel's role as chair of the World Bank's Development Committee and as a Commissioner on the Commission for Africa.

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	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
Budget Office	Annual Budget framework and Division of Revenue	Integrity of budget framework	MTBPS – October 2004: framework for 2005 Budget		
	Budget Review, Estimates of National Expenditure, appropriation legislation and public finance statistics	Quality of budget documentation	Timely publication, accuracy, scope and quality of content		
	Africa network of senior budget officials	Number of countries involved	21 African countries affiliated	Qualitative impact on budget processes and procedures	
	Public-private partnership agreements	Increased PPP oversight capacity	Capacity to give advice on municipal PPPs established	PPP advisory and regulatory functions restructured	
	International cooperation agreements	Alignment of ODA with Government objectives	Introduction of ODA information system	Improved coordination between ODA planning and budget process	
Public Finance	Sectoral and departmental policy advice	Timely and relevant analysis and advice	Assessment of policy priorities for medium term and 2005 Budget	Phasing in of targeted sectoral expenditure reviews	
	Expenditure analysis	Quality of expenditure estimates	Introduction of new in-year expenditure monitoring system	Phasing in of consolidated departmental and agency estimates and expenditure reports	
	Project management support	Improved project and financial management	Growth in project flow and measured progress in service delivery of client departments and agencies		
Intergovernmental Relations	Annual Division of Revenue Bill, with Explanatory memorandum (Annexure E and appendices)	Quality of the Bill and accompanying documents and accuracy of data contained therein	Timely publication, accuracy, scope and quality of content		

Subprogramme	Output	Measure/Indicator	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
	Intergovernmental Fiscal Review	Quality of scope of the Review	Review published by May	Review published by May	Review published by May
	Section 32 quarterly reports on spending trends	Timeliness and accuracy of information	Accurate quarterly reports on provincial budget implementation	Accurate quarterly reports on provincial budget implementation, and output performance reports	Accurate quarterly reports on provincial budget implementation, and output performance reports
			Quarterly reports on budget implementation of 6 metropolitan municipalities	Quarterly reports on budget implementation of 50 high-capacity municipalities	Quarterly reports on budget implementation of 157 high- and medium-capacity municipalities
		Implementation of MFMA	Quarterly publication of metropolitan municipal budgets	Quarterly publication of 50 high-capacity municipal budgets	Quarterly publication of 157 high- and medium-capacity municipal budgets
	Facilitate infrastructure delivery and improvements in provinces	Provincial infrastructure plans complying with guidelines of the Infrastructure Development Improvement Programme developed by National Treasury	Targeted appointment of technical experts to assist provincial departments to prepare plans		
	Support for municipal financial reforms	Number of pilot municipalities in which financial management programmes/ reforms are being implemented in terms of MFMA	Supporting 9 provincial treasuries to assist 6 metropolitan municipalities to implement MFMA	Supporting 9 provincial treasuries to assist 50 high-capacity municipalities to implement MFMA	Supporting 9 provincial treasuries to assist 157 high- and medium-capacity municipalities to implement MFMA
	Support for provincial financial reforms	Quantity and quality of discussions in CFO forums on financial management	10 provincial sectors	10 provincial sectors	10 provincial sectors

Subprogramme	Output	Measure/Indicator	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
Economic Policy and International Financial Relations	Macroeconomic forecasts and framework	Accuracy and timeliness of quarterly forecasts Quality of policy evaluation	Enhanced quarterly econometric forecasting model Develop CGE model	Develop internal modelling capacity	
	Macroeconomic policy analysis and advice	Timely and relevant analysis and advice	Develop growth strategy	Annual macroeconomic risk assessments completed Microeconomic regulatory reviews completed	
	Tax policy analysis and advice	Timely and relevant analysis and advice	Retirement Fund Tax Review	Phasing in of retirement fund tax reforms	
		Alignment of tax policy proposals with macroeconomic and fiscal framework	Mining and Petroleum Royalty Bill – 2nd draft	Introduction of royalty legislation into Parliamentary process	
		Gradual and consistent tax policy changes	Policy framework paper on environmental charges	Possible phasing in of environmental charges	
			Taxation and Growth Colloquium convened	Possible adjustments of tax proposals to reflect Colloquium	
	Financial Sector policy advice, legislation and regulations	Timely and relevant analysis and advice	Framework for integration of financial regulation	Implement mechanisms for integrating financial regulation	
	Increased protection for consumers of financial services	Act drafted and passed by parliament	Develop South African Deposit Insurance Scheme (SADIS) for retail banking depositors	Enact Deposit Insurance Bill	
	Promote equitable access to efficient financial services	Act redrafted and passed by parliament	Framework for pension fund reform and review of Pension Funds Act	Enact revised Pensions Fund Act	
		Regulatory framework developed/Number of banks registered	Framework for encouraging second and third tier banks		

Subprogramme	Output	Measure/Indicator	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
	Increased protection for investors and enhanced financial stability	Estimates of money laundering in the SA financial system decrease	Formulate policy regarding combating of money laundering and financing of terrorism	Address outstanding areas of FATF compliance	
	Enhance the stability of the financial sector through the FCA	Proposals developed for FCA and implemented/increased financial activity in SA by non-SA firms	Initial scheme developed	Approved components implemented	
	Promote the development of the financial sector	Bill drafted and passed by Parliament	Co-operative Banks Bill		
		Bill drafted and passed by Parliament	Financial Services Ombud Schemes Bill		
		Bill drafted and passed by Parliament	Security Services Bill		
		Bill drafted and passed by Parliament	Auditing Profession Bill	Implementation of new auditing profession regulatory authority	
		Bill drafted and passed by Parliament	Corporate Governance and Financial Reporting Bill		
	Integration of African economies	Improved macroeconomic convergence Increased bilateral and regional trade in goods and services Finance and Investment Protocol completed and implemented	Finance and investment protocol completed and approved Macroeconomic convergence programme initiated Project on trade expansion developed	Macro indicators converging and peer review process in place	Macro indicators converging

Subprogramme	Output	Measure/Indicator	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
	Reform of the international financial architecture	Less costly multilateral financial instruments suitable for SA New CCL-type instrument created Governance structures reformed	Proposals on each issue developed for bilateral and multilateral discussion	Governance reform (quotas, etc) agreed to by relevant countries	New CCL instruments agreed by the international community and IMF
	Reform of the global development architecture	Financing mechanism for ODA developed and agreed/ODA levels increase to MDG requirements Global Monitoring Report adapted to SA guidelines Aid harmonisation process completed and measurable	Financing mechanisms narrowed down in multilateral discussions GMR second report by DEVCOM Second review of aid harmonisation	Financing mechanisms agreed by international community	
	International financial relations advice and development	Timely and relevant analysis and advice. South Africa's views successfully reflected in the policies of international development finance institutions	Proposals developed on HIPC reform, sovereign debt restructuring mechanism, best practice capital account and exchange control policy reform. Establish Nepad capital flows and debt relief initiatives, African Peer Review Mechanism and rules and procedures for macroeconomic convergence in SADC	Proposals on international financial architecture reform presented to G20, IMF, World Bank and other international financial institutions. Ensure African Peer Review Mechanism economic governance assessment completed	Proposals on international financial architecture reform reflected in the positions of the G20, IMF, World Bank and other international financial institutions. Progress achieved in SADC macroeconomic convergence

RESOURCE PLAN
Expenditure estimates

Table 3: Economic Planning and Budget Management

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2004/05	2005/06	2006/07	2007/08
Public Finance	36,851	35,311	38,800	40,432
Budget Office	39,093	42,206	45,752	48,503
Intergovernmental Relations	33,007	28,536	30,872	31,765
Economic Policy	41,188	45,708	47,632	49,976
Total	**150,139**	**151,761**	**163,056**	**170,676**
Change to 2004 Budget estimate	9,932	809	1,284	815
Economic classification				
Current payments	**141,403**	**143,682**	**154,986**	**162,847**
Compensation of employees	79,686	99,637	108,191	115,369
Goods and services	61,717	44,045	46,795	47,478
of which:				
Consultants and contractors	*34,368*	*15,542*	*17,024*	*16,385*
Travel and subsistence	*9,980*	*12,293*	*12,922*	*13,191*
Inventory	*5,344*	*5,348*	*5,615*	*5,971*
Personnel agency fees	*1,851*	*1,110*	*1,218*	*1,340*
Training and staff development	*2,106*	*1,703*	*1,842*	*1,839*
Financial transactions in assets and liabilities	–	–	–	–
Transfers and subsidies to:	**6,241**	**6,059**	**6,037**	**6,052**
Provinces and municipalities	241	59	37	52
Departmental agencies and accounts	6,000	6,000	6,000	6,000
Public corporations and private enterprises	–	–	–	–
Payments for capital assets	**2,495**	**2,020**	**2,033**	**1,777**
Machinery and equipment	2,495	1,946	1,928	1,688
Software and other intangible assets	–	74	105	89
Total	**150,139**	**151,761**	**163,056**	**170,676**
Details of transfers and subsidies:				
Departmental agencies and accounts				
Current	**6,000**	**6,000**	**6,000**	**6,000**
Project Development Facility-Trading Account	6,000	6,000	6,000	6,000
Total departmental agencies and accounts	**6,000**	**6,000**	**6,000**	**6,000**

Expenditure trends

Expenditure Planning and Budget Management expenditure increased rapidly over the last four years, increasing from R53,8 million in 2001/02 to R150,1 million in 2004/05, at an annual average rate of 40,8 per cent, due to increases in analytical and advisory capacity.

Over the next three years, expenditure is expected to continue to increase, rising to R170,7 million in 2007/08. These increases will go towards further professional development over the medium term, including in the areas of international financial relations, financial regulation and oversight, support for municipal financial management capacity, PPPs, improved public sector infrastructure planning and project analysis, and the strengthening of research capacity on macroeconomic trends, tax policy, economic and financial policy analysis and social development planning. The allocations accommodate provision for the Department's internship programme, an annual allocation of R6 million to the project development facility trading account of the PPP unit and support for building economic research capacity in Southern Africa.

PROGRAMME 3

ASSETS AND LIABILITY MANAGEMENT

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

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

Programme activities are carried out through five subprogrammes:

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

Policy developments

Reducing the debt cost subject to acceptable risk levels remains the primary objective of the debt-management strategy. To achieve this, *Assets and Liability Management* has committed itself to prudent management of debt-maturity profiles, diversification of funding instruments, increasing transparency and information flows, and maintaining credibility in the market.

Government will continue to maintain active interactions with the market participants, taking into account market considerations. Accordingly in 2005/06, Government will contribute to improving market developments through the issuance of benchmark bonds over the entire yield curve and diversifying the available debt instruments. Two new fixed income bonds will be issued, maturing in 2013/14 and 2019/20. In addition, a new floating rate bond will be introduced, maturing in 2011/12. To encourage the general public to save, while providing Government with an additional source of financing, the issuance of Retail bonds will remain a priority.

The RSA sovereign credit rating was upgraded by Moody's Investor Services and placed on a positive review by Fitch Ratings, contributing to a further narrowing of the sovereign risk premium. This enables Government to lower its borrowing costs in the foreign markets. Government will continue to keep a presence in the marketable and non-marketable foreign markets.

Government issued nil coupon bonds to the total amount of R21,0 billion over the period 2002/03 to 2004/05, to eliminate the realised losses in the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) held with the South African Reserve Bank. By 2005/06, realised losses on the GFECRA will be reduced by a further R7,0 billion.

In actively managing the debt portfolio, the National Treasury has the responsibility of identifying, quantifying and managing the risks to which Government is exposed. Government has adopted a comprehensive risk-management policy, which includes Government-wide risks. Government-wide risks have since been identified and quantified. A set of benchmarks or reference criteria against which these risks can be tested and managed are being developed, including broader contingent liability risk issues within the public sector.

Prudent cash-management processes ensured that Government's daily non-interest bearing liquidity buffer with the South African Reserve Bank was reduced to R50 million. Efforts will be made to further reduce the non-interest bearing liquidity buffer. This means a broadening of the integrated cash-management framework, thereby providing departments with greater internal cash-management responsibilities. Treasury bills will continue to be used as a cash-management tool. The range of Treasury bills will be extended to include one- and nine- month bills.

To reduce borrowing costs and enhance credit risk management across Government, optimal use of available cash resources will continue to be coordinated centrally between the provinces and the National Treasury. This will be done through the intergovernmental cash coordination project in terms of which provinces will have a Corporation for Public Deposits bank account as part of their provincial revenue fund accounts. An account structure will be implemented to facilitate the ringfencing of social assistance payments.

Integrated systems enabling the functions of the front, middle and back offices of the *Assets and Liability Management* division are being acquired and implemented.

The National Treasury will continue its support for the restructuring of state-owned entities (SOEs). The emphasis will be on improving financial performance, enhancing shareholder value, improving service delivery and operational efficiencies.

Where Government policies and market conditions permit, the National Treasury will advise Government on selling some of its assets. Further, in line with the State of the Nation address, the focus will be on the contribution that SOEs can make to deliver infrastructure to enhance economic growth and alleviate poverty.

The enhancement of shareholder value and financial management include an assessment of the treasury operations of SOEs, a review of the mandates of development finance institutions, and the compilation of a financial distribution and capital structure policy for government business enterprises. An electronic database capturing the annual financial statements, providing key financial indicators and recording contingent liabilities is being developed. This will also contribute to improved financial management, enhanced of transparency and increased accessibility to Government.

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

Programme 3: Assets and Liability Management

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

Subprogramme	Output	Measure/Indicator	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
Liability Management	Financing of Government's net borrowing requirements	Annual total Government borrowing needs fully met	Net positive issuance of R53,4 billion	Net positive issuance of R50,4 billion	Net positive issuance of R53,9 billion
	Sound domestic and foreign debt management policies	Enhanced liquidity: Domestic market Per cent of new investors	R9 trillion bond turnover Attract 20 per cent new investors in foreign market	R9,5 trillion bond turnover Attract 20 per cent new investors in foreign market	R10 trillion bond turnover Attract 20 per cent new investors in foreign market
	Reduce debt service costs	Debt service cost as per cent of GDP declines	3,5 per cent of GDP	3,4 per cent of GDP	3,2 per cent of GDP
	Contribute to the development of financial markets	Diversification of funding instruments	Introduction of 2 new fixed income bonds and one variable rate bond Develop a fuller Treasury bill yield curve by introducing a one and nine month Treasury bills	Ongoing	Ongoing
	Sound investor relations	Retain current investors and attract new ones	Annual domestic foreign roadshows, teleconferences and meetings Timeous dissemination of reliable information		
Financial Operations	Sound cash forecasts	Government's liquidity requirements met everytime	Forecasting R1,0 trillion of cash flows	Forecasting R1,1 trillion of cash flows	Forecasting R1,2 trillion of cash flows
	Optimise return on investment	Reduction of non-interest bearing liquidity buffer	Non-interest bearing liquidity buffer reduced to R25 million	Non-interest bearing liquidity buffer eliminated by end of 2007/08	
	Coordination of Intergovernmental cash	All provinces using intergovernmental cash coordination facility	100 per cent Provinces using the facility	Continuous improvements to intergovernmental cash coordination	
		Saving by national and provincial government	Saving of 2,50 per cent on borrowing costs		

Subprogramme	Output	Measure/Indicator	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
	Annual financial statements and report	Audit reports	Timeous dissemination of reliable information		
	Fully automated and integrated Treasury Management Systems	Straight-through processing (One point of data captured, visible and available to all other users)	Acquisition of back office system	Acquisition and integration of middle and front office system	
Strategy and Risk Management	Minimising and mitigating risks emanating from Government Debt Portfolio (market risk)	Performance against benchmarks:			
		• Floating vs fixed debt	30 per cent floating : 70 per cent fixed	30 per cent floating : 70 per cent fixed	Review of benchmarks
		• Foreign debt vs domestic debt	20 per cent foreign : 80 per cent domestic	20 per cent foreign : 80 per cent domestic	Review of benchmarks
		• Duration range	5,3 – 6,0 years	5,3 – 6,0 years	Review of benchmarks
		• Average maturity below 9,75 years	New bonds introduced in 2011, 2014 and 2020	Review of appropriate new issuances and debt consolidations	Review of appropriate new issuances and debt consolidation
	Minimising and mitigating counterparty risks emanating from the investment of surplus cash	Adherence to the surplus cash benchmark investment ratios with 4 commercial banks	20-29 per cent per counterparty	20-29 per cent per counterparty	Review of benchmarks
		Capping of the investments per counterparty	50 per cent of capital and reserves per counterparty	50 per cent of capital and reserves per counterparty	Review of benchmarks
	Minimising and mitigating sovereign credit rating risks	Good relationship with rating agencies	Arrange rating agencies annual visits to RSA		
	Appropriate management of contingent liabilities	Capping total Government debt plus contingent liabilities as a percentage of GDP	50 per cent of GDP	50 per cent of GDP	Review target

Subprogramme	Output	Measure/Indicator	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
Asset Management	Present the report on the review of mandates of Development Finance Institutions (DFIs)	Percentage of DFIs reviewed	20 per cent reviewed	55 per cent reviewed	100 per cent reviewed
	Present the report on the review of Treasury Operations of SOEs	Percentage of SOEs reviewed	Visit 100 per cent of SOEs' Treasury Operations		
			30 per cent reviewed	60 per cent reviewed	100 per cent reviewed
	Guidelines on Treasury Operations	Adherence by SOEs to the guidelines	Incorporation of guidelines into Treasury Regulations	25 per cent of SOEs adhering	75 per cent of SOEs adhering
	SOE Dividend Policies Formulated	Consensus reached with relevant Departments	Completed		
		Financial modelling of appropriate dividends policies for SOEs	20 per cent modelled	60 per cent modelled	100 per cent modelled
		Dividend policy adherence	Approval by Cabinet	10 per cent of SOEs	40 per cent of SOEs
	Prudent management of SOEs	PFMA and King Code compliance and monitoring	Quarterly		
	Electronic annual financial statements of SOEs on the SOE register	Successful development of format for electronic filing	Completed		
		Level of compliance to electronic submission	Complete format for electronic filling	20 per cent submitting electronically	40 per cent submitting electronically

RESOURCE PLAN
Expenditure estimates

Table 4: Assets and Liability Management

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2004/05	2005/06	2006/07	2007/08
Management	19,075	13,520	12,074	11,948
Asset Management	12,729	12,190	7,812	8,358
Liability Management	8,539	9,737	10,579	11,323
Financial Operations	9,261	8,830	9,570	10,255
Strategy and Risk Management	4,272	5,445	5,899	6,337
Total	**53,876**	**49,722**	**45,934**	**48,221**
Change to 2004 Budget estimate	11,605	4,418	(2,469)	(2,602)
Economic classification				
Current payments	**52,288**	**49,237**	**45,420**	**47,681**
Compensation of employees	20,074	23,964	25,886	27,961
Goods and services	32,214	25,273	19,534	19,720
of which:				
Consultants and contractors	*14,629*	*5,000*	*376*	*401*
Travel and subsistence	*2,938*	*3,070*	*3,377*	*3,546*
Computer services	*6,632*	*6,739*	*4,293*	*3,721*
Training and staff development: external	*801*	*758*	*834*	*876*
Transfers and subsidies to:	**42**	**7**	**7**	**8**
Provinces and municipalities	42	7	7	8
Payments for capital assets	**1,546**	**478**	**507**	**532**
Machinery and equipment	1,546	478	507	532
Total	**53,876**	**49,722**	**45,934**	**48,221**

Expenditure trends

The budget for *Assets and Liability Management* increased in 2004/05 due to the development of a new Government-wide risk management approach, the focus on corporate governance, and the development and implementation of an integrated information system. Expenditure is expected to fall from R53,9 million in 2004/05 to R45,9 million in 2006/07, and then to increase to R48,2 million in 2007/08.

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 the implementation of the PFMA.

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

- *Management* refers to the office of the head of the division;
- *Supply Chain Management* develops policy that regulates the supply-chain processes 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 monitoring role in the implementation of the PFMA and related training initiatives; and
- *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 (GRAP).

Policy developments

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

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

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

Supply Chain Management forms an integrated part of financial management and can be described as a systematic process that ensures that goods and services are delivered to the right place and at the right quantity, quality, cost and time. The supply chain management function introduces principles of strategic sourcing, to achieve better value for money for Government. During 2003/04 a Strategic Procurement Guideline and a Strategic Sourcing Methodology were developed to support the Framework for Supply Chain Management in directing Government's spending to achieve its broader socio-economic objectives.

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

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

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

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

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

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

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

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

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

The National Treasury will also establish, maintain and manage a Register for Tender Defaulters as contemplated in the Prevention and Combating of Corrupt Activities Act, (12 of 2004). This Register will contain particulars regarding enterprises or persons that have been convicted by a court for having engaged in corrupt activities relating to contracts, procurement and withdrawal of tenders.

The *PFMA Implementation and Coordination* unit focuses largely on coordinating finance-related capacity-building initiatives and providing Cabinet and Parliament's Standing Committee on Public Accounts (SCOPA) with progress reports on the implementation of the PFMA. In this regard, a compliance survey was conducted during the latter part of the 2003/04 financial year and progress reports were forwarded to Cabinet and to SCOPA during July 2004. The survey provided clear indications that departments and Constitutional institutions were making good progress towards the PFMA implementation and that there was a notable degree of improvement in financial management.

During November 2004, a memorandum was prepared to inform Cabinet on the audit outcomes of national and provincial entities in respect of their 2003/04 financial statements. In this regard, Cabinet resolved that the National Treasury together with the Presidency should consider mechanisms aimed at ensuring that audits adequately indicate whether expenditure succeeded to deliver on Government policy and priorities, and the development of systems to analyse expenditure in support of service delivery.

The memorandum also highlighted problems around the late tabling and non-tabling of annual reports and financial statements in the legislature. Given that annual reports are regarded as being the primary tools for accountability and for measuring the performance of entities, the *PFMA Implementation and Coordination* unit commissioned research on how best the relevant Portfolio Committees can deal with these problems. This research culminated in the preparation of the "Guidelines for Legislative Oversight through Annual Reports", which is aimed at assisting MPs and members of provincial legislatures with the process of evaluating annual reports. The guidelines were proposals for further discussion and debate and were forwarded to the Chairperson of the Speakers Forum during February 2005 for consideration.

The Validation Board established during November 2001 to accredit finance-related training material has already accredited 67 courses of 14 different training service providers, thereby ensuring that training initiatives produce the requisite skills to effectively implement the PFMA. All national departments, Constitutional institutions and provincial treasuries are regularly informed on courses that have been accredited by the Validation Board.

The National Treasury's Service Level Agreement with the Institute for Public Finance and Auditing (IPFA) has produced positive results: a total of 194 courses were rolled out to 4 408 trainees, including 110 Standard Chart of Accounts courses that were presented free of charge to 2 566 trainees.

The National Treasury has engaged IPFA and the South African Management Development Institute (SAMDI) to help with the training of supply-chain management officials. Courses developed by these service providers during 2004/05 were validated by the Validation Board and are currently being presented to officials in the national and provincial spheres. The training began in January 2005 and will continue for the next few years.

With effect from 1 April 2005, IPFA's training initiatives will be co-ordinated by a newly established trading arm that will operate in accordance with business principles. This will see the termination of the National Treasury's Service Level Agreement with IPFA. The National Treasury will, however, continue with vigorous training interventions related to supply-chain management, the migration from cash to accrual accounting and other financial reforms. These specific training interventions will be co-ordinated and rolled out in the most economic way, which would include free training to officials of national and provincial institutions.

With effect from 1 April 2005, SAMDI will employ a new strategy regarding financial management training that will see courses being presented in accordance with the actual needs of clients. This will include conducting departmental training needs analyses. This revised strategy will also place a greater emphasis on technical financial management training and financial management training for non-financial managers. The National Treasury's Validation Board activities will therefore be transferred to SAMDI, whose database of training service providers will be updated with those maintained by the National Treasury. The National Treasury will, however, foster a close working relationship with and provide assistance to SAMDI on matters related to general financial management training.

The PFMA Implementation and Coordination unit and the Office of the Auditor-General are involved with the development of a Framework for Departmental Policies and

Procedures with a view to assisting departments with the development of their policies and procedures. The Framework will contribute positively towards the standardisation of policies and procedures and will also lead to an improvement in financial management in departments.

Financial Systems - The existing "legacy" financial systems in Government, managed by the *Financial Systems* unit, are based on outdated technology and architecture. Significant revisions of governance practices in recent years have had a fundamental impact on public-sector management and associated information technology solutions. In particular, the PFMA requires the introduction of GRAP, 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:

- Ongoing implementation of the Standard Chart of Accounts as prescribed and approved by the Accountant General;
- Providing for compliance with PFMA requirements for financial statements, debtors, creditors, and asset management functions; and
- Increased user support and training.

An Integrated Financial Management Project Office was established on 1 February 2003 to develop a coherent master system plan (MSP) for the integration of Government's financial management systems. The Budget Council endorsed the project office's recommendations in the MSP during December 2004 for formal submission to Cabinet during the first semester of 2005. The MSP provides proposals for the replacement of Government's current financial systems, together with proposed budget and implementation time frames.

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 and developed and implemented.

Subprogramme	Output	Measure/Indicator	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
Supply Chain Management	Regulating and monitoring supply-chain management policy in Government, and managing general supply contracts on behalf of Government	Implementation of consistent legislative and policy framework	Phased implementation strategy and reports to Cabinet and SCOPA as from second semester 2005	Reports to Cabinet and SCOPA – March 2007	Reports to Cabinet and SCOPA – March 2008
		Issue further practice notes for implementing supply chain management	During 2005	Ongoing enhancement	Ongoing enhancement
		Issue supply chain management regulations in terms of MFMA	July 2005	Ongoing enhancement	Ongoing enhancement
	Introduce strategic sourcing principles to enhance value for money	Applicable to at least 60 transversal term contracts	Introduce strategic sourcing strategies for 20 per cent of all term contracts	Introduce strategic sourcing strategies for 40 per cent of all term contracts	Introduce strategic sourcing strategies for 70 per cent of all term contracts
	Alignment of preferential procurement system with broad-based economic empowerment	Revision of Preferential Procurement Regulations	Promulgation of new Preferential Procurement Regulations by March 2005	Report to Cabinet – March 2007	Report to Cabinet – March 2008

Subprogramme	Output	Measure/Indicator	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
PFMA Implementation and Coordination	Coordinate implementation and training initiatives of National Treasury in relation to the PFMA and monitor implementation of the PFMA in other institutions	Report to Cabinet and Standing Committee on Public Accounts on progress made with PFMA Implementation Report to Cabinet on the audit outcomes of national and provincial entities	June 2005 November 2005	June 2006 November 2006	June 2007 November 2007
		Number of courses presented to trainees to assist with implementation of financial reforms • Standard Chart of Accounts • Supply Chain Management • Migration from Cash to Accrual Accounting	 135 courses 120 courses 100 courses	 - 115 courses 140 courses	 - 110 courses 165 courses
Financial Systems	Implement, maintain and improve financial management systems	Percentage availability of Financial Management Systems during working hours	98 per cent system availability during office hours	98 per cent system availability during office hours	98 per cent system availability during office hours
		Submission of Master Systems Plan for IFMS to Cabinet	First semester 2005	Phased implementation of recommendations contained in IFMS Master system plan	Phased implementation of recommendations contained in IFMS Master system plan

RESOURCE PLAN
Expenditure estimates

Table 5: Financial Management and Systems

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2004/05	2005/06	2006/07	2007/08
Management	1 233	1 251	1 359	1 427
Supply Chain Management	38 016	30 531	32 453	34 449
PFMA Implementation and Co-ordination	15 781	14 327	15 228	16 056
Financial Systems	297 425	235 890	321 683	337 729
Operational costs	*49 363*	*50 733*	*55 672*	*59 352*
Basic Accounting System (BAS)	*90 478*	*91 017*	*97 146*	*103 691*
Persal	*44 527*	*48 029*	*51 391*	*54 334*
Logis	*35 257*	*39 810*	*41 642*	*43 725*
Vulindlela	*18 903*	*21 118*	*22 507*	*23 629*
Financial Management System (FMS)	*15 907*	-	-	-
Integrated Financial Management System (IFMS)	*42 990*	*57 468*	*53 325*	*52 998*
Total	**352 455**	**354 284**	**370 723**	**389 661**
Change to 2004 Budget estimate	–	(83 624)	(10 769)	(10 906)
Economic classification				
Current payments	**348 884**	**278 779**	**367 318**	**386 119**
Compensation of employees	37 603	52 336	56 535	61 079
Goods and services	311 281	226 443	310 783	325 040
of which:				
Consultants and contractors	*5 918*	*852*	*887*	*872*
Travel and subsistence	*5 404*	*5 305*	*5 639*	*5 917*
Communication	*2 116*	*2 047*	*2 179*	*2 267*
Inventory	*2 655*	*2 389*	*2 502*	*2 586*
Computer services	*288 227*	*194 348*	*276 917*	*289 765*
Audit fees external	*2 094*	*2 162*	*2 271*	*2 385*
Personnel agency fees	–	–	–	–
Training and staff development: external	*1 288*	*13 647*	*14 383*	*15 046*
Financial transactions in assets and liabilities	–	–	–	–
Transfers and subsidies to:	**109**	**21**	**21**	**20**
Provinces and municipalities	109	21	21	20
Payments for capital assets	**3 462**	**3 199**	**3 384**	**3 522**
Machinery and equipment	3 462	3 199	3 384	3 522
Total	**352 455**	**281 999**	**370 723**	**389 661**

Expenditure trends

Over the next three years, expenditure is expected to increase steadily, from R354,3 million in 2005/06 to R389,7 million in 2007/08, an annual average increase of 3,4 per cent. The *PFMA Implementation and Coordination* subprogramme's baseline has been decreased by R2,0 million, R2,1 million and R2,2 million over the medium term, due to funds shifted to SAMDI to assist with the rollout of financial management training.

PROGRAMME 5

FINANCIAL ACCOUNTING AND REPORTING

Purpose: *Financial Accounting and Reporting* seeks to achieve accountability to the general public by promoting transparency and effectiveness in the delivery of public services, especially in the management of revenue, expenditure, assets and liabilities. It sets new Government accounting policies and practices, and improves existing ones, to ensure compliance with the standards of Generally Recognised Accounting Practice (GRAP), prepares consolidated financial statements, and endeavours to improve the timeliness, accuracy and efficiency of financial reporting.

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

The programme consists of six subprogrammes:

- *Financial Reporting for National Accounts* is responsible for accounting for the National Revenue Fund and the RDP Fund, banking services for national Government, and preparing consolidated financial statements;
- *Financial Management Improvement* includes improving financial management and providing training, developing and implementing accounting policies, and internal audit services;
- *Investment of Public Monies* accommodates augmentation of the Public Investment Commissioner's bank account;
- *Service Charges (Commercial Banks)* provides for bank service charges for all departments' deposit accounts;
- *Audit Statutory Bodies* provides for compensation for certain shortfalls of statutory bodies and municipalities in terms of the Auditor-General Act (12 of 1995); and
- *Contingent Liabilities: Reinsurance Liabilities* provides for reinsurance granted to insurers arising from loss or damage to property, funds payments or consequential loss as a result of riots in terms of the Reinsurance of Damages and Losses Act (56 of 1989), and grants loans and advances to such insurers in terms of the Act.

Policy developments

The *Financial Reporting for National Accounts* unit intends to continue to make enhancements to the formats for financial reporting for national and provincial government. This will form part of the migration plan to comply with GRAP in terms of Section 216 of the Constitution, and is in line with the requirements of improving accountability and transparency in the public sector. The enhancements will align the formats of the Annual Financial Statements (AFS) to the prescribed GRAP standards and are designed to accommodate the transition from the cash to accrual basis of accounting. The team will continue to seek new ways to improve the in-year monitoring system to enhance the information provided and to facilitate timeous monthly, quarterly and annual reporting.

The enhancements require extensive consultation and training with national and provincial departments, and public entities on the formats. The unit will continue to make this investment as it will enhance 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 the wake of the formulation of the GRAP standards by the Accounting Standards Board, the *Financial Management Improvement* unit will ensure effective rollout of the standards through monitoring of implementation, reporting on departments' progress and providing support where needed. In this respect, the unit will develop new accounting policies and practices, and enhance existing ones, to support both the current modified cash practices as well as the future accrual standards.

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

Financial Management Improvement includes internal audit services. The unit will continue to upgrade internal auditing in Government to the level of it being a vehicle towards effective and efficient service delivery. The unit will focus on the implementation and continuous update of the internal audit and risk-management frameworks and the provision of support and guidance to internal auditors across all spheres of government. The support and guidance provided will lead to the development and maintenance of quality internal audit and risk-management skills and capability in Government. Over the next Medium Term Expenditure Framework period, the unit will also attempt to build and strengthen working relationships with its strategic partners, namely the Institute of Internal Auditors and the Institute of Public Finance and Auditing.

A range of challenges to effective internal audit activity remains. These include, for example, lack of understanding of the role of internal audit by some critical stakeholders, inadequate internal audit and risk-management skills, and a lack of integration of internal audit services. As a result drastic measures are being considered to address these challenges. The unit intends to follow a robust approach to bring internal audit to a level where it will be an indispensable partner in public service delivery and accountability.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 5: Financial Accounting and Reporting

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

Subprogramme	Output	Measure/Indicator	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
Financial Reporting for National Accounts	Monthly statement of actual revenue and expenditure with regards to the National Revenue Fund	Timely publishing of accurate reports	Within 30 days after month end	Within 30 days after month end	Within 30 days after month end
	Specimen formats for annual financial statements and consolidated annual financial statements and conduct implementation sessions	Completed formats for annual financial statements that comply with Government prescripts	30 July 2005	31 March 2006	31 March 2007
	Consolidated annual financial statements for national Government	Accurate and timely Audited Consolidated Annual Financial Statements for National Government.	30 September 2005	30 September 2006	30 September 2007
		Published consolidated Annual Financial Statements	31 October 2005	31 October 2006	31 October 2007
	Annual financial statements for the RDP Fund	Audited and published annual financial statements for the RDP Fund	31 October annually	31 October annually	31 October annually
Financial Management Improvement	Enhanced framework for the transition from cash to accrual base of accounting	Completed framework for transition complies to the ASB workplan	30 June 2005		

Subprogramme	Output	Measure/Indicator	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
	Enhanced implementation strategy for transition from cash to accrual base of accounting	Implementation plan is in line with the framework	30 September 2005		
	Accounting policies and practices in support of the framework for the transition from cash to accrual base of accounting	Completed set of accounting policies and practices are in line with the GRAP standards	100 per cent alignment to GRAP standards effective dates	100 per cent alignment to GRAP standards effective dates	100 per cent alignment to GRAP standards effective dates
	Internal Audit and Risk Management frameworks for national and provincial departments	Percentage compliance with the frameworks	60 per cent compliance by March 2006	100 per cent compliance at national and provincial levels of government	100 per cent compliance at national and provincial levels of government
	Internal Quality Assessment Reviews (IQAR) in preparation for the external QAR on national and provincial departments, local government and public entities	Report to SCOPA detailing the level of compliance with the internal audit framework	Report on all national and provincial departments, and 20 per cent of public entities – by 31 March 2006	Report on all public entities – by 31 March 2007	Local government in line with MFMA implementation plan
			Local government in line with MFMA implementation plan	Local government in line with MFMA implementation plan	

Subprogramme	Output	Measure/Indicator	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
	Public sector audit committee forum	Proposal to the Director-General indicating terms of reference, composition, authority and relationships with other governance structures	30 September 2005		
		Public sector audit committee forum established		30 April 2006	
		Review effectiveness of forum, and report to Director-General on refinements			31 March 2007
	Participation by OAG on audit committees and risk management committees of national departments	Percentage participation on national departments' audit committees	80 per cent participation – By 31 March 2006	100 per cent participation	100 per cent participation

RESOURCE PLAN
Expenditure estimates

Table 6: Financial Accounting and Reporting

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2004/05	2005/06	2006/07	2007/08
Financial Reporting for National Accounts	40,139	53,030	62,857	66,641
Financial Management Improvement	8,341	18,302	20,560	21,589
Investment of Public Monies	–	1	1	1
Service Charges (Commercial Banks)	33	–	–	–
Audit Statutory Bodies	16,667	14,300	15,100	15,800
Contingent Liabilities: Reinsurance Liabilities	–	1	1	1
Total	**65,180**	**85,634**	**98,519**	**104,032**
Change to 2004 Budget estimate	(1,002)	11,334	16,899	18,331
Economic classification				
Current payments	**47,086**	**63,076**	**74,905**	**79,485**
Compensation of employees	15,276	20,679	29,460	34,626
Goods and services	31,810	42,397	45,445	44,859
of which:				
Consultants and contractors	*5,273*	*4,236*	*5,192*	*2,919*
Travel and subsistence	*10,890*	*20,297*	*21,188*	*21,843*
Computer services	*4,888*	*4,767*	*5,078*	*5,348*
Audit fees external	*6,667*	*279*	*291*	*312*
Training and staff development: external	*1,825*	*935*	*1,017*	*1,030*
Financial transactions in assets and liabilities	–	–	–	–
Transfers and subsidies to:	**16,987**	**19,041**	**19,869**	**20,804**
Provinces and municipalities	49	6	8	9
Departmental agencies and accounts	16,938	19,035	19,861	20,795
Payments for capital assets	**1,107**	**3,517**	**3,745**	**3,743**
Machinery and equipment	1,107	3,517	3,745	3,743
Total	**65,180**	**85,634**	**98,519**	**104,032**
Details of transfers and subsidies:				
Departmental agencies and accounts				
Current	**16,938**	**19,035**	**19,861**	**20,795**
Accounting Standards Board	270	4,733	4,759	4,993
Audit (Auditor-General)	16,668	14,302	15,102	15,802
Capital	**–**	**–**	**–**	**–**
Accounting Standards Board	–	–	–	–
Total departmental agencies and accounts	**16,938**	**19,035**	**19,861**	**20,795**

Expenditure trends

Expenditure almost doubled in 2002/03, to reach R49.8 million, due to a large increase in expenditure on the *Financial Reporting for National Accounts* subprogramme. Expenditure rose further to R65.2 million in 2004/05, and is expected to increase significantly over the next three years, to reach R104 million in 2007/08. Part of this increase is due to the expansion of capacity.

PROGRAMME 6

PROVINCIAL AND LOCAL GOVERNMENT TRANSFERS

Purpose: *Provincial and Local Government Transfers* designs, manages and monitors the National Treasury's own conditional transfers to provincial and local governments.

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

This programme includes three conditional grants:

- The *Provincial Infrastructure Grant* supplements the provinces' infrastructure budgets, and is intended to accelerate the building and maintenance of social and economic infrastructure such as hospitals, clinics, schools, provincial roads and agricultural infrastructure. The grant also assists provinces in the funding of labour-intensive provincial infrastructure projects;
- The *Local Government Financial Management Grant* provides for the transfer and monitoring of funds for local government financial management reforms and the implementation of the Municipal Finance Management Act, as part of the capacity-building efforts to modernise financial management in municipalities; and
- The *Local Government Restructuring Grant* provides for the transfer and monitoring of funds to local government to assist in restructuring initiatives aimed at modernising service delivery as well as institutional and financial management in the larger municipalities.

Policy developments

The *Provincial Infrastructure Grant* was introduced in 2000/01 to address the backlogs in provincial infrastructure and to boost infrastructure spending in general. This allocation has increased from R3,3 billion in 2004/05 to R3,7 billion in 2005/06, rising to R5,3 billion in 2007/08.

This is a Schedule 4 general grant to assist provinces in supplementing their capital budgets. Though actual spending on capital by provinces has risen significantly over the last few years, it is still significantly less than their total capital budgets, resulting in significant rollovers in most provinces. The National Treasury has introduced an Infrastructure Development Investment Programme to improve planning and spending capacity on capital in all nine provinces, particularly in education, health, roads and public works. A more detailed framework of this grant is published in Appendix E1 with the 2005 Division of Revenue Bill.

The *Local Government Financial Management Grant* provides financial support to municipalities in order to implement the Municipal Finance Management Act (56 of 2003) (MFMA), modernise and improve the quality of budget and financial management in municipalities. The MFMA took effect on 1 July 2004. In 2000 a pilot project was started to develop the principles of the Act in selected municipalities. The number of participating municipalities grew from the initial 7 in 2000 to 284 municipalities in 2005. The programme provides for the gearing of international support and direct allocations to municipalities.

More than 35 municipalities have also tabled multi-year budgets, and more municipalities are expected to do so in 2005. A few municipalities have already published good-quality annual reports for the 2004/05 financial year during January 2005.

The 2005 Medium Term Expenditure Framework (MTEF) allocations for the grant are R200 million for each of the three years including the funding of the Municipal Finance Management Technical Assistance Programme (MFMTAP). The agreement with the International Bank for Reconstruction and Development to provide technical assistance in implementing municipal financial-management reforms has entered phase three, with 30 advisors now placed in municipalities for a period of two years, after placing 16 during 2003. The placement of roving advisors in five provincial treasuries to assist provinces in performing their role in respect of the MFMA commenced during November 2004 and February 2005. This number will expand over the medium term. Furthermore, to facilitate skills development in financial management, municipalities have used the grant to appoint more than 250 municipal finance management interns.

A more detailed framework of this grant is published in Appendix E2 with the 2005 Division of Revenue Bill.

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

The grant is demand-driven, with municipalities applying for grants, based on their own restructuring plans. Though slow initially, 6 municipalities have succeeded with their applications. These are Johannesburg (R525 million), Mangaung (R130 million), Msunduzi (R130 million), Cacadu District (R48 million), Buffalo City (R130 million) and Emfuleni (R130 million). The other major cities — Cape Town, eThekwini, Tshwane and Nelson Mandela municipalities — have all applied for funding. Their applications are being evaluated. Allocations are made on a multi-year basis and will be paid over the next few years. Smaller allocations have also been made to various municipalities to assist them with specific restructuring initiatives as a once-off allocation.

Over the MTEF period R1,05 billion has been allocated to the restructuring grant, R350 million each year. A more detailed framework of this grant is published in Appendix E2 with the 2005 Division of Revenue Bill. This grant is expected to be phased out at the end of 2007/08.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 6: Provincial and Local Government Transfers

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

Subprogramme	Output	Measure/Indicator	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
Provincial Infrastructure Grant	Monitoring provincial infrastructure development	Transfers in compliance with conditions	Transfers made in accordance with the Division of Revenue Act		
		Reporting on compliance, transfers and spending	Quarterly reporting		
		Improvement of infrastructure delivery management systems, through implementation of Infrastructure Delivery Improvement Programme (IDIP) in provinces	Implementation of phase 1 (pilot) of IDIP in 9 provincial education departments, 2 health departments and 2 roads departments	Implementation of phase 2 - rollout of IDIP in all provincial health and Public Works/Roads departments	Implementation of IDIP in infrastructure programme for all provincial departments
Local Government Financial Management Grant	Monitoring of municipal financial management reforms and restructuring	Transfers made according to conditions	Transfers made by 31 March in compliance with the Division of Revenue Act		
		Regular reporting per grant	Quarterly reporting as per stated criteria and conditions		
		Number of pilot municipalities in which financial management programmes/ reforms are being implemented in terms of MFMA	Supporting 9 provincial treasuries to assist 6 metropolitan municipalities to implement MFMA	Supporting 9 provincial treasuries to assist 50 high-capacity municipalities to implement MFMA	Supporting 9 provincial treasuries to assist 157 high- and medium-capacity municipalities to implement MFMA
Restructuring Grant	Funding assistance to restructure and modernise service delivery in large-budget municipalities	Number of approved applications and setting of conditions	Managing and overseeing compliance with conditions of grant by successful municipalities		

RESOURCE PLAN
Expenditure estimates

Table 7: Provincial and Local Government Transfers

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2004/05	2005/06	2006/07	2007/08
Provincial Infrastructure Grant	3,348,362	3,730,773	4,118,119	5,324,025
Local Government Financial Management and Restructuring Grants	585,898	548,740	548,657	548,657
Total	**3,934,260**	**4,279,513**	**4,666,776**	**5,872,682**
Change to 2004 Budget estimate	45,000	–	–	972,567
Economic classification				
Transfers and subsidies to:	**3,934,260**	**4,279,513**	**4,666,776**	**5,872,682**
Provinces and municipalities	3,934,260	4,279,513	4,666,776	5,872,682
Total	**3,934,260**	**4,279,513**	**4,666,776**	**5,872,682**
Details of transfers and subsidies:				
Provinces and municipalities				
Provinces				
Provincial revenue funds				
Capital	**3,348,362**	**3,730,773**	**4,118,119**	**5,324,025**
Provincial Infrastructure Grant	3,348,362	3,730,773	4,118,119	5,324,025
Flood Rehabilitation	–	–	–	–
Municipalities				
Municipal bank accounts				
Current	**585,898**	**548,740**	**548,657**	**548,657**
Local Government Restructuring	387,900	350,000	350,000	350,000
Financial Management: Municipalities	129,000	132,500	145,250	145,250
Financial Management: Development Bank of Southern Africa	68,998	66,240	53,407	53,407
Total provinces and municipalities	**3,934,260**	**4,279,513**	**4,666,776**	**5,872,682**

Expenditure trends

The *Local Government Financial Management Grant* amounted to R211 million and R198 million in 2003/04 and 2004/05 respectively. All allocations were disbursed in 2003/04.

The *Local Government Restructuring Grant* amounted to R539 million and R343 million in 2003/04 and 2004/05 respectively. Disbursements have been made to municipalities that have met the conditions.

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 to retired members of the military.

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

There are two subprogrammes:

- *Civil Pensions and Contributions to Medical Schemes* provides for the payment of benefits out of pension and other funds to the beneficiaries of various public-sector bodies in terms of 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; and
- *Military Pensions and Other Benefits*, which provides for the payment of military pension benefits and medical claims arising from treatment for disability, medical assistive devices and other related expenses, in keeping with statutory requirements and commitments.

Policy developments

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

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 implementing an appropriate risk model to facilitate adequate actuarial modelling and costing of payments.

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

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

The Act gave effect to Section 189 of the Interim Constitution in November 1996 regarding the prescription of rules for determining the persons who are entitled to receive special pensions and to provide for the establishment of structures to implement the Act - that is, the Special Pensions Board and the Special Pensions Review Board.

In addition to amendments to the Act currently under consideration by the Parliamentary Committee on Finance, the special pensions process will be reviewed over the next year.

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, contributing to affordability and sustainability over the Medium Term Expenditure Framework 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	2005/06 Target Milestone	2006/07 Target Milestone	2007/08 Target Milestone
Civil Pensions and Contributions to Funds	Payment of pension benefits and contributions to funds (including Special Pensions)	14 783 beneficiaries paid monthly	14 000 beneficiaries paid monthly	13 314 beneficiaries paid monthly	12 497 beneficiaries paid monthly
	Payment of contributions to medical-aid schemes	110 743 members paid timeously	122 046 members paid monthly	134 892 members paid monthly	153 318 members paid monthly
	Payment of risk and administration fees to the Political Office Bearers' Pension Fund	Payment of risk and administration fees in respect of 900 members monthly	Payment of risk and administration fees in respect of 900 members monthly	Payment of risk and administration fees in respect of 900 members monthly	Payment of risk and administration fees in respect of 900 members monthly
Military Pensions and Other Benefits	Payment of military pension benefits	6 235 beneficiaries paid monthly	5 646 beneficiaries paid monthly	5 113 beneficiaries paid monthly	4 630 beneficiaries paid monthly
	Payment to service providers for medical expenses	489 claims paid to service providers monthly	443 claims paid to service providers monthly	401 claims paid to service providers monthly	363 claims paid to service providers monthly

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	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Civil Pensions and Contributions to Funds	1,923,966	2,034,694	2,162,774	2,275,912
Military Pensions and Other Benefits	140,000	144,111	152,758	160,396
Total	**2,063,966**	**2,178,805**	**2,315,532**	**2,436,308**
Change to 2004 Budget estimate	(100,000)	(114,999)	(115,900)	(116,696)
Economic classification				
Current payments	**1,372,325**	**1,432,050**	**1,523,972**	**1,605,171**
Social contributions for retired employees	1,359,037	1,417,965	1,509,042	1,589,494
Goods and services	13,288	14,085	14,930	15,677
of which:				
Consultants and contractors	*13,288*	*14,085*	*14,930*	*15,677*
Financial transactions in assets and liabilities	–	–	–	–
Transfers and subsidies to:	**691,641**	**746,755**	**791,560**	**831,137**
Foreign governments and international organisations	2,906	3,080	3,265	3,428
Non-profit institutions	55	58	62	65
Households	688,680	743,617	788,233	827,644
Total	**2,063,966**	**2,178,805**	**2,315,532**	**2,436,308**
Details of transfers and subsidies:				
Foreign governments and international organisations				
Current	**2,906**	**3,080**	**3,265**	**3,428**
United Kingdom Tax	2,906	3,080	3,265	3,428
Total foreign governments and international organisations	**2,906**	**3,080**	**3,265**	**3,428**
Non-profit institutions				
Current	**55**	**58**	**62**	**65**
SA Legion	55	58	62	65
Total non-profit institutions	**55**	**58**	**62**	**65**
Households				
Social benefits				
Current	**688,680**	**743,617**	**788,233**	**827,644**
Civil Pensions	550,638	601,581	637,675	669,558
of which:				
Contributions to provident funds for associated institutions	771	817	866	909
Parliamentary awards	128	136	144	151
Other beneficiaries	48,443	51,350	54,431	57,153
Pension benefit: President of RSA	677	718	761	799
Political Office Bearers' Fund	17,755	18,820	19,949	20,946
Awards iro temporary, total or partial disablement or death as a result of injury on duty	179,703	220,000	233,200	244,860
Special pensions	303,160	309,739	328,323	344,739
Augmentation of civil pensions	1	1	1	1
Military Pensions	138,042	142,036	150,558	158,086
of which:				

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2004/05	2005/06	2006/07	2007/08
Ex-servicemen	47,175	48,000	50,880	53,424
SA Citizen Force	78,833	80,000	84,800	89,040
Civil Protection	34	36	38	40
Other Benefits Ex-servicemen	12,000	14,000	14,840	15,582
Total households	**688,680**	**743,617**	**788,233**	**827,644**

Expenditure trends

The government contribution to medical schemes for retired civil servants carries the largest expenditure burden in this programme, growing from R1,3 billion in 2004/05 to R1,5 billion in 2007/08. 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.

PROGRAMME 8

FISCAL TRANSFERS

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

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

Domestic transfers are made to:

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

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

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

Policy developments

Domestic transfers

In respect of domestic affairs, the organisations mentioned above are beneficiaries of fiscal transfers, which are made by the National Treasury directly from its national budget. These organisations report directly to Parliament, and are therefore responsible for compiling their own annual reports and strategic plans. The Resource Plan below provides figures on fiscal transfers made to these organisations.

Foreign transfers

Swaziland, Lesotho and Namibia

The Common Monetary Area (CMA) countries (Lesotho, Namibia, Swaziland and South

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

The HIPC initiative

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

The African Development Bank and African Development Fund

South Africa participates in replenishing the International Development Association (IDA) and the African Development Fund (ADF) resources. The ADF-10 was concluded in December 2004, followed by the conclusion of the IDA-14 process in early February 2005. South Africa will contribute R39,9 million to ADF, to be paid in three equal instalments of R13,3 million. South Africa's contribution to IDA 14 will amount R107,17 million. Our contributions will be made in line with provisions for an accelerated encashment schedule over a three-year period.

Swaziland currently represents Lesotho, Malawi, Mauritius, South Africa and Zambia on the Board of Directors.

The *African Development Bank's* (ADB) lending strategy in South Africa was revised during 2002, which enabled direct lending by the Bank to South African parastatals and development finance institutions with and without Government guarantee. 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. 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.

RESOURCE PLAN
Expenditure estimates

Table 9: Fiscal Transfers

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Common Monetary Area Compensation (CMA)	263,028	276,500	311,804	327,402
Development Bank of Southern Africa	40,001	40,000	40,000	40,000
World Bank Group	1	–	–	–
Highly Indebted Poor Countries Initiative	39,505	–	–	–
African Development Bank	154,316	154,316	152,597	169,552
South African Revenue Service	4,602,509	4,254,302	4,509,560	4,735,038
Financial and Fiscal Commission	17,869	19,660	19,205	20,178
Secret Services	2,117,057	2,080,063	2,223,086	2,334,240
Financial Intelligence Centre	21,866	23,617	31,410	42,480
Commonwealth Fund for Technical Cooperation	2,290	3,000	3,000	–
Total	**7,258,442**	**6,851,458**	**7,290,662**	**7,668,890**
Change to 2004 Budget estimate	72,931	(421,726)	(444,168)	(452,682)
Economic classification				
Transfers and subsidies to:	**7,258,442**	**6,851,458**	**7,290,662**	**7,668,890**
Departmental agencies and accounts	6,759,301	6,377,642	6,783,261	7,131,936
Foreign governments and international organisations	459,140	433,816	467,401	496,954
Public corporations and private enterprises	40,001	40,000	40,000	40,000
Total	**7,258,442**	**6,851,458**	**7,290,662**	**7,668,890**
Details of transfers and subsidies:				
Departmental agencies and accounts				
Current	**5,718,802**	**5,558,316**	**5,899,398**	**6,203,881**
South African Revenue Services	4,113,559	3,803,868	4,032,100	4,233,705
Secret Services Account	1,569,324	1,715,216	1,822,068	1,913,172
Financial Intelligence Centre	18,050	19,572	26,025	36,826
Financial and Fiscal Commission	17,869	19,660	19,205	20,178
Capital	**1,040,499**	**819,326**	**883,863**	**928,055**
South African Revenue Services	488,950	450,434	477,460	501,333
Secret Services Account	547,733	364,847	401,018	421,068
Financial Intelligence Centre	3,816	4,045	5,385	5,654
Total departmental agencies and accounts	**6,759,301**	**6,377,642**	**6,783,261**	**7,131,936**
Foreign governments and international organisations				
Current	**304,823**	**279,500**	**314,804**	**327,402**
Lesotho,Namibia & Swaziland	263,028	276,500	311,804	327,402
Highly Indebted Poor Countries Initiative (HIPC)	39,505	–	–	–
Commonwealth Fund for Technical Cooperation	2,290	3,000	3,000	–
Capital	**154,317**	**154,316**	**152,597**	**169,552**
African Development Bank	154,316	154,316	152,597	169,552
World Bank	1	–	–	–
Total foreign governments and international organisations	**459,140**	**433,816**	**467,401**	**496,954**

Subprogramme R thousand	Adjusted appropriation 2004/05	Medium-term expenditure estimate 2005/06	 2006/07	 2007/08
Public corporations and private enterprises				
Public corporations				
Other transfers				
Current	**40,001**	**40,000**	**40,000**	**40,000**
Development Bank of Southern Africa	40,001	40,000	40,000	40,000
Total public corporations and private enterprises	**40,001**	**40,000**	**40,000**	**40,000**

Expenditure trends

The bulk of expenditure is allocated to the South African Revenue Service (SARS) and the Secret Services. Expenditure has grown from R4 billion in 2001/02 to R7,3 billion in 2004/05 - showing an average annual increase of 21,9 per cent. This increase has been due to additional allocations for the Secret Services and SARS and the introduction of the transfer to Swaziland in 2004/05.

However, going forward expenditure is expected to fall in 2005/06 as a result of lower transfers to SARS and changes to VAT treatment of grants to government agencies. A steady recovery is expected for the period 2007/08 to R7,7 billion.

PUBLIC ENTITIES

PUBLIC ENTITIES REPORTING TO THE MINISTER OF FINANCE

Various entities report to the Minister of Finance. This is done through governance arrangements that allow reporting institutions the autonomy that they require to meet their mandates. Their links to the Ministry enable them to develop strategic alignment with Government's policy goals.

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

The *South African Revenue Service*, the *Accounting Standards Board*, and the *Financial Intelligence Centre* receive transfers from the National Treasury. Other entities that report to the Minister of Finance, but which do not receive transfers from the National Treasury, are the Development Bank of Southern Africa, the Financial Services Board and the Public Investment Commissioners.

South African Revenue Service

The South African Revenue Service Act (1997) provides the South African Revenue Service (SARS) with the mandate to perform the following central tasks: collecting revenues that are due; ensuring maximum compliance with legislation; and providing a customs service that will maximise revenue collection, protect the borders and facilitate trade.

The main priorities for the period ahead will be optimal coverage across industries and sectors, tax types, taxpayer types, and geographical locations as ways of eradicating non-compliance with tax laws.

Other significant operational priorities include:

- Preparing an in-depth policy document that will form the basis for redrafting the Customs and Excise Amendment Act (1996) to take account of regional integration, the Kyoto Convention and other trends linked to the globalisation of trade;
- Activating the reportable arrangements provisions that were inserted in the Income Tax Act (58 of 1962) in 2003; and
- Introducing an advance ruling system to provide businesses with greater certainty about transactions that are being considered (legislation is being drafted).

Development Bank of Southern Africa

The *Development Bank of Southern Africa* (DBSA) is a Schedule 2 public entity governed by the Development Bank of Southern Africa Act (13 of 1997).

The primary purpose of the Bank is to provide financial, technical and other assistance to achieve the objectives provided for in section 3 of the DBSA Act. It focuses its investment activities on economic, social and institutional infrastructure funding.

The vision of the DBSA is the progressive realisation of an empowered and integrated region, free of poverty, inequity and dependency, and to be a leading change agent for sustainable socio-economic development in the Southern African Development Community (SADC) region, and a strategic partner in Africa south of the Sahara.

The DBSA has cascaded the Government's Contract with the People into its own institutional vision and strategic plan, entitled Vision 2014.

This vision will be pursued through concerted investments in infrastructure, broad-based economic growth, and regional economic integration, as well as human resources and institutional development.

The leading strategic thrust toward 2014 will be to broaden and deepen development impact, with special attention to eliminating backlogs in basic services, promoting job creation and stimulating local economic development in under-resourced areas. The Bank will undertake a larger number of projects, in particular smaller and medium-sized projects with greater impact on local economic development. The Bank will develop new, targeted infrastructure programmes, and create a new concessional finance window for historically neglected and under-resourced localities. These mainstream capital resources will be complemented by substantial grant investments in human and institutional capacity.

Financial Intelligence Centre

The *Financial Intelligence Centre* (FIC) was established in terms of the Financial Intelligence Centre Act (38 of 2001) and has been operational since February 2002. The FIC has implemented measures enabling it to operate as an independent state agency, and has implemented regulations supporting the Act since June 2003. These regulations outline in detail the obligations on "accountable institutions" in the private sector for implementing customer due diligence measures, keeping records, and appointing and training staff.

The FIC was established as a project by the National Treasury and although now an autonomous entity, it continues to receive a range of support services from the National Treasury. The core mandate of the FIC is to receive reports from accountable institutions, to analyse the information, and thereafter make referrals to law enforcement authorities, to intelligence agencies and to SARS for investigation and prosecution.

The FIC is also mandated to coordinate all other anti-money-laundering matters and matters relating to combating the financing of terrorism, including:

- Policy formulation and implementation, including revision of the Act, regulations and guidance notes;
- Advisory role to the Minister and National Treasury and ensuring the coordination of policy;
- Monitoring of compliance by accountable institutions as well as the designated supervisory bodies;
- Prevention and reduction of laundering activities;
- International obligations and commitments, which include leading South Africa's participation in the Financial Action Task Force (FATF), its regional body, and the

Egmont Group of financial intelligence units; and

- Exchange of information with equivalent organisations in 94 other countries.

The major objectives of the FIC in the next period include:

- Timeous capture, analysis and referral of suspicious transaction reports to law enforcement authorities (the FIC expects to receive approximately 15 000 such reports a year);
- Implementing measures to effectively manage the exchange of information with law enforcement authorities and other financial intelligence units worldwide;
- Monitoring the performance of compliance of reporting institutions, supervisory bodies and other bodies, which will include on-site examinations and inspections;
- Developing a risk-based compliance framework;
- Undertaking legislative amendments to the FICA to comply with the revised international standards;
- Introducing new reporting requirements as set out in the Act;
- Preparing for the Mutual Evaluation of South Africa in 2007;
- Participating in various international fora, especially the FATF, the Eastern and Southern Africa Anti-Money Laundering Group and the Egmont Group of Financial Intelligence Units;
- Preparing for a successful presidency of the FATF in 2005/06;
- Continuing to develop and implement financial, HR, and other policies, systems, procedures and operating manuals;
- Providing for training of officials from other departments, as well as FIC staff, as part of staff development and career-pathing;
- Consciously fostering a learning organisation culture; and
- Developing and implementing major IT systems, providing for the ability of the FIC to fulfil all its mandated responsibilities.

Financial Services Board

The *Financial Services Board* (FSB) is a statutory body established in terms of the Financial Services Board Act (97 of 1990). It supervises the activities of financial institutions and services, excluding the business of a bank, and acts in an advisory capacity to the Minister of Finance. A further function of the Board is to promote programmes and initiatives by financial institutions and bodies representing the financial services industry to inform and educate users and potential users of financial products and services. The Board is financed by the financial services industry, with no contribution from government.

The board supervises institutions and services in terms of 13 Acts. Functions include regulatory supervisory control over long and short-term insurance, retirement funds, friendly societies, capital markets, financial advisory and intermediary services, insider trading and collective investment schemes, and central security depositories responsible for the safe custody of securities. The board is also responsible for the financial supervision of the Road Accident Fund and supervising compliance with money-laundering control measures in the Financial Intelligence Centre Act (31of 1991).

Objectives for 2005 are: The establishment of an enforcement committee for the imposition of administrative penalties; finalising the Pension Fund circular on contingency reserves as required by legislation flowing from the Pension Funds Second Amendment Act (39 of 2001); focusing on Section 14 approvals in terms of the Financial Services Board Act (97 of 1990), where the FSB can add value and streamline processes for faster turnaround times on priority cases; finalising the electronic submission of valuation reports; continuous work on draft legislative changes necessary to adequately protect policy holders in response to the Fedsure inspection report; and revisiting the capital adequacy requirements for long-term insurers.

Other aspects relate to: finalising the licensing process in terms of the Financial Advisory and Intermediary Services Act and introducing a dedicated risk-based supervision approach for financial intermediaries and advisors; focusing on fund-raising for the financial services consumer education initiative; and shifting increasingly to legislative enforcement.

Public Investment Commissioners

The Public Investment Commissioners (PIC) is a statutory body governed in terms of the Public Investment Commissioners Act (45 of 1984), as amended. The Minister of Finance is responsible for appointing the board, and the board 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.

The PIC 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.

In 2003/04 the fair value of funds under management grew from R308 billion to R377 billion, generating a blended return of 20,9 per cent, primarily due to improved equity markets and the strong performance of the bond portfolio. On 1 April 2005 the PIC became a corporate entity.

Accounting Standards Board

The *Accounting Standards Board* (ASB), established in the latter part of 2002 in accordance with the PFMA (1 of 1999), as amended, is mainly responsible for setting the accounting standards of Generally Recognised Accounting Practice (GRAP) in government.

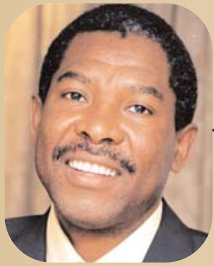
During 2003/04, progress was made in developing a framework for the preparation and presentation of financial statements. The draft standards for the following were issued for public comment: presentation of financial statements; cash flow statements; accounting policies; changes in accounting estimates; and errors and impairment of assets.

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

ORGANISATIONAL INFORMATION AND INSTITUTIONAL ENVIRONMENT

Minister of Finance
Trevor Manuel

Deputy Minister of Finance
Jabu Moleketi



Director-General
Lesetja Kganyago

Chief Operating Officer
Logan Wort

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

Head
Assets & Liability Management
Phakamani Hadebe

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

Head
Public Finance
Andrew Donaldson

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

Head
Budget Office
Vacant

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

Head
Economic Policy & International Financial Relations
Vacant

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

Head
Corporate Services
Najwah Allie-Edries

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

Head
Intergovernmental Relations
Ismail Momoniat

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

Head
Specialist Functions
Coen Kruger

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

Head
Office of the Accountant-General
Freeman Nomvalo

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

ORGANISATIONAL INFORMATION AND INSTITUTIONAL ENVIRONMENT

Organisational Restructuring

The initial restructuring of the National Treasury was completed during 2003/04. Capacity-building opportunities are being provided for employees who were declared "in excess" during the initial restructuring process and who are still employed with the Department.

The 2004/05 Strategic Planning session has spurred a review of the effectiveness of the current organisational design, processes and systems. To support the new strategic imperatives, recommendations on possible improvements have been made.

DELEGATIONS

Human Resources Management

To improve decision-making processes certain original powers vested in both the Minister and the Director-General have been delegated to divisional heads and senior managers. These delegations are being reviewed and if appropriate further delegations will be made. This will ensure that senior management have the authority to execute their responsibilities. The above will be implemented within the prescripts of the legislative framework that ensures good governance.

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 abovementioned legislation, such delegations are continuously reviewed and the relevant managers informed of their responsibilities.

CAPITAL TRANSFERS AND FINANCIAL ASSETS

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

- The South African Revenue Service (also current transfer);
- The Financial Intelligence Centre (also current transfer);
- The Secret Services (also current transfer); and

- The African Development Bank (ADB).

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

INFORMATION TECHNOLOGY SYSTEMS

The strategic alignment of information technology systems with business priorities will continue as a key focus area. The *Information Technology* unit will seek to consolidate all internal systems, which will further refine the current IT investment.

The need to move towards a paperless environment has been identified by business. *Information Technology* has invested in the right infrastructure in anticipation of rollout by business. The implementation of the improved central service-desk will further enhance the service offering by the IT unit. These improvements will enable the organisation to improve information sharing and introduce streamlined work processes.

PERFORMANCE MANAGEMENT SYSTEM

The Human Resources Management unit facilitates the translation of the mission, vision and strategic objectives of the National Treasury into tangible outputs through the National Treasury's Performance Management System.

The unit continues to refine the Performance Management System, in so doing improving alignment with strategic goals, embedding a performance culture and ensuring capability enhancement.

OUTSOURCING OF SERVICES

The National Treasury outsources a variety of products and services. The majority of funds spent on outsourcing is dedicated to systems development and maintenance, and is managed by the Specialist Functions division. Initiatives underway that consist of a number of teams of external consultants include the Integrated Financial Management System project, which aims to introduce an integrated Financial Management system for use by all Government departments. In addition, the division has also outsourced the maintenance of the current transversal Financial, Human Resources and Procurement systems. Training of Government officials on the Public Finance Management Act (1 of 1999) (PFMA) is also outsourced, as are a range of financial consultancy services aimed at providing additional capacity and support for awareness and implementation of the PFMA by first and second tier Government departments.

Divisions also outsource a range of professional consultancy services, in this way enhancing internal capacity. Approximately R13 million was spent on such services during the 2004/05 fiscal year.

Corporate Services itself has outsourced a range of products and services. These include training, internal auditing, IT desktop support, office design, cleaning services, building maintenance, telephone systems maintenance, physical security, maintenance of electronic security systems, recruitment, candidate qualifications verifications, printing, courier services and the National Treasury's Internet site management.

Details of some of the key outsourced contracts are provided below:

- The *Information Technology* unit continues to outsource the support and Local Area Network operational components to Kitso Solutions and Business Connexions with management of the team being internal. An improved Wide Area Network model is currently being pursued with the State Information Technology Agency (SITA). This solution promises to further strengthen relations between SITA and the National Treasury;
- The National Treasury has outsourced its cleaning services to Phephafatso CC. This contract consisted of 14 Refreshment Co-ordinators and 24 Cleaners for 240 Vermeulen Street Building and 40 Church Square Building. However, the contract has expired and the National Treasury has invited new tenders to provide this service for a period of 3 years commencing with the 2005/2006 financial year; and
- The Department's Internal Audit Function (IAF) contract has been extended for an additional 12 months ending 31 August 2005. This represents an extension to the two-year contract approved on 7 March 2002 by the then Director-General. The contract was extended in order for the IAF to complete the audit work as contemplated by the rolling three-year strategic internal audit plan and annual internal audit plans.

Currently we are investigating the possibility of outsourcing the provision of cellular products and services, travel services management and the provision of stationery.

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