

# **NATIONAL TREASURY STRATEGIC PLAN 2002 - 2005**

## **Vision**

The 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.

## **Mission & Objectives**

- Advance economic growth and income redistribution
- Prepare a sound and sustainable national budget and equitable division of resources between the three spheres of government
- Equitably and efficiently raise fiscal revenue while enhancing the efficiency and competitiveness of the South African economy
- Manage Government's financial assets and liabilities soundly
- Promote transparency and enforce effective financial management

## **Values**

- Account to the nation through public and parliamentary process
- Discharge responsibilities professionally and with humility
- Adhere to the highest standards of financial management and fiscal discipline
- Deliver excellent service through teamwork, sound planning and enthusiastic and committed implementation, striving to improve performance
- Respect staff and invest in them as a valued asset
- Act transparently, with integrity, respect, fairness and objectivity
- Honour the faith of the South African public

## **Part A: Vision, Mission and Values**

### **Minister's statement of policy and commitment**

As custodian of the nation's finances, the National Treasury ensures effective and prudent budgeting, within the framework of sustainable policies. The national budget, and our performance against it, is the litmus test for our achievements. This role requires us to work with line departments, helping them jointly meet Government's goals through policy choices and trade-offs in the budgeting and financial management processes. The challenge is to meet our operational and development goals while keeping our finances sound and sustainable.

As an emerging economy with so much potential, operating in the complex global economy, we face major challenges. We need to create jobs and opportunities that enable our people to overcome the burdens of poverty; we must enhance economic growth, providing the means to respond to people's basic needs. And we must do all of this within our resource constraints.

For this reason, we have carefully positioned Government's fiscal and policy approach since 1994 to build confidence in the South African economy, create incentives for investors and taxpayers, and to address the very real needs of our population. We continue our efforts to ensure Government uses its resources well and accountably. The Public Finance Management Act established a framework that benchmarks public management at new levels, setting and enforcing high standards, and making Government more accountable and transparent. Multi-year budgeting is now part and parcel of the way Government functions in the national and provincial spheres. We are now moving toward applying these approaches to local government, thereby adding a critical dimension to their efficacy as the sphere closest to people and charged with major basic service delivery responsibilities.

The fiscal prudence of the past few years has put us in a position now to focus — from a firmer foundation than would have been possible before — on expansion of services. The 2001 and 2002 budgets hence show marked increases in spending on infrastructure, health, education and municipal services. Ongoing tax relief — made possible by the fiscal approach and the vastly improved efficiency of SARS — should increase the economic momentum. This augurs well for public finance and meeting our economic goals.

We cannot be naïve about these prospects. The world economy is still in recession and fluid. There is still reason to be concerned about the capacity of all three spheres to spend effectively and fully funds allocated to them, and capacity building therefore remains a priority. But by striking a balance between prudent financial management, the need to expand fiscally in priority areas, the need to strengthen institutional capacity, and stimulating the economy through the right incentives, we could go far, building on the basis already created. The National Treasury is proud of its achievements, but not complacent about them. It continues to work very hard at positioning itself for the tasks and challenges at hand, and to streamline the path for departments, provinces and municipalities that jointly must get us there.

**Trevor Manuel**

**Minister of Finance**

## **Overview by the Accounting Officer**

After five years of macroeconomic public finance reform, the National Treasury can now place greater emphasis on microeconomic reform and financial management. The macro-economic policy framework of 1996 set the stage for investment, competitive participation in the global economy and job creation. Fiscal and financial management reforms brought multi-year budgeting, a reformed tax system and improved revenue collection, intergovernmental forums to facilitate planning and budgeting, improved debt management, governance reform, and a policy and regulatory environment supportive of public-private partnerships.

With the economy and public finances on a sound footing, the challenge now is to filter the benefits of the macro reforms through to ordinary South Africans. This requires a stronger focus on microeconomic management to attract and encourage investment, bolster business that creates employment, and stimulate the emergence of small and medium enterprises. Major public policy priorities must be supported: economic growth, job creation, safety and security, broadening access to housing, infrastructure and basic services. Line departments are critical, and must find ways to work with private investors and other stakeholders to achieve these goals. This requires, from Government's side, sound public management, fiscal efficiency and attention to the challenges of implementation. Treasury needs to help facilitate an environment where resources are mobilised and the state's fiscal strengths solidified.

Microeconomic dimensions are critical, but not at the expense of macroeconomic priorities. Sustained economic growth, management of the debt burden and keeping inflation at bay remain essential preconditions for a vibrant economy that enables Government, business, labour and others to obtain optimum results that create more opportunities.

The National Treasury's own vote is dominated by transfer payments that comprise an average 82 per cent of the total over the seven-year period. Excluding the *Provincial and local government transfers*, *Civil and military pensions*, *Secret services* and *Fiscal transfers*, the core budget of the Department amounts to only R604,5 million in 2002/03, R641,8 million in 2003/04 and R671,8 million in 2004/05.

The 2002 Budget increases the medium-term baseline allocations by R2,4 billion in 2002/03 and by R3,0 billion in 2003/04. The impacts are diverse. Increased provision is made for the South African Revenue Service to adopt a revised tax policy, for the Siyakha Project, for the newly established Financial Intelligence Centre and inflation and other adjustments to the Secret Service baseline allocation. There are also carry-through costs of funds shifted in 2001/02 from the SA Police Service Vote, South Africa's contribution to the Heavily Indebted Poor Countries initiative and an additional allocation to the Government contributions to medical schemes sub-programme under Civil Pensions. Last, inflation and related adjustments are made for the Department's core programmes and additional infrastructure allocations to provinces.

**Maria Ramos**  
**Director General**

## **Aim 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.

Key objectives therefore are to:

- Advance economic growth and income redistribution through economic, fiscal and financial policies that stimulate investment and trade, create employment and allocate budget resources to the targeted beneficiaries.
- Prepare a sound and sustainable national budget and equitable division of resources between the three spheres of government.
- Equitably and efficiently raise fiscal revenue as required through targeted and fair tax policy and other measures that ensure revenue stability and the efficiency and competitiveness of the South African economy.
- Manage Government's financial assets and liabilities soundly through prudent cash management, asset restructuring, financial, management and management of the debt portfolio.
- Contribute to improved financial management through promoting and enforcing transparency and effective management of revenue, expenditure, assets and liabilities in all spheres of government.

## **Legislative Mandate**

The legislative mandate of the National Treasury is found in the Constitution of South Africa, the Public Finance Management Act (PFMA) and several other Acts of Parliament.

The Minister, as the head of the National Treasury, takes the policy and other decisions of the Treasury, except those decisions taken as a result of a delegation or instruction in terms of Section 10 of the PFMA. The Treasury's powers and functions are to:

- Promote the national government's fiscal policy framework and the co-ordination of macroeconomic policy;
- Co-ordinate intergovernmental financial and fiscal relations;
- Manage the Budget preparation process;
- Exercise control over the implementation of the annual national budget, including any adjustments Budgets;
- Facilitate the implementation of the annual Division of Revenue Act;
- Monitor the implementation of provincial budgets;
- Promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities of departments, public entities and constitutional institutions; and
- Perform the other functions assigned to the National Treasury in terms of this Act.

To the extent necessary to perform the functions mentioned above, the National Treasury:

- Must prescribe uniform Treasury norms and standards;
- Must enforce this Act and any prescribed norms and standards, including any prescribed standards of generally recognised accounting practice and uniform classification systems, in national departments;
- Must monitor and assess the implementation of this Act, including any prescribed norms and standards, in provincial departments, in public entities and in constitutional institutions;
- May assist departments and constitutional institutions in building their capacity for efficient, effective and transparent financial management;
- May investigate any system of financial management and internal control in any department, public entity or constitutional institution;
- Must intervene by taking appropriate steps, which may include steps in terms of Section 100 of the Constitution or the withholding of funds in terms of Section 216(2) of the Constitution, to address a serious or persistent material breach of this Act by a department, public entity or constitutional institution; and
- May do anything further that is necessary to fulfil its responsibilities effectively.

## **Core values**

As custodians of the nation's financial resources, the National Treasury:

- Is accountable to the nation through public and parliamentary process;
- Discharges its responsibilities professionally and with humility, and with the aim of promoting growth and prosperity for all;
- Aspires to the highest standards of financial management and fiscal discipline;
- Acknowledges the importance of delivering excellent service to clients, through teamwork, planning with precision and executing with enthusiasm and commitment, striving at all times to improve performance;
- Recognises its staff as a valued asset and by investing in them, offers opportunities to enhance skills, access the best technology and advance careers to full potential;
- Acts transparently and with integrity in dealing with the public and colleagues, showing respect and demonstrating fairness and objectivity; and
- In achieving these goals, will honour the faith that the South African public has placed in us.

## **Current context**

### **The service delivery environment**

Over the past five years, economic management focused on macroeconomic issues, to position the country globally and reform domestic economic incentives. The results have been continuous economic growth, a smaller deficit, improving international credit-ratings for the country, inflation contained, scope for tax relief, and a gradually improving ability to expand spending on infrastructure and social services. It is necessary to retain this focus, to further consolidate the country's position globally and to provide the underpinnings for accelerated growth and faster job creation.

Meanwhile, the President highlighted the need for greater attention to microeconomic reforms to help businesses grow, create employment and stimulate economic management practices that stand in support of the macro goals of growth and development. The relatively sound macro and fiscal positions should also be used to step up spending on key societal objectives: hence the Minister of Finance's strong references to the Reconstruction and Development Programme when tabling the Medium Term Budget Policy Statement in October 2001.

Faced by these challenges and policy considerations, strategic priorities include:

- *Supporting economic growth:* Through the Economic and Employment cluster, creating an environment that supports growth through a common approach to promoting industrial investment and tourism, encouraging improved foreign trade performance, and supporting small business development.
- *Fiscal policy that reinforces economic growth:* A moderate and affordable budget deficit and public sector borrowing requirement should contribute to lower interest rates in the wider economy. Tax reforms are aimed at broadening the tax base and lowering tax rates. The Government is better positioned to expand expenditure on vital social and basic services.
- *Addressing poverty and vulnerability:* The Treasury oversees a number of targeted poverty relief and job creation allocations, focused on supporting the most disadvantaged communities. Among others, Treasury collaborates with the Department of Provincial and Local Government (DPLG) and other departments in the co-ordination of the rural development and urban renewal programmes.
- *Infrastructure focus:* There is a new, concerted drive to enhance infrastructure investment and maintenance. This is tied to the drive for economic growth and to meet basic needs. If infrastructure investment is appropriately designed, located, financed, managed and maintained – bringing services to businesses and households when and where they want them and at prices they can afford – it provides a firm foundation for sustainable development and improved quality of life. Government's commitment is reflected in the supplementary allocation announced in the 2001 Budget, allowing for substantial allocations to departments and provinces. Treasury has set up appropriate institutional linkages with departments and provinces to streamline flows of infrastructure funding. The Treasury's PPP Unit, in collaboration with line departments, will encourage private sector investment in public infrastructure.
- *Fighting crime and corruption:* The Treasury, together with the Justice, Safety and Security and Correctional Services departments, convenes an integrated review each year of justice sector budgetary issues and key initiatives. The PFMA sets out a clear and firm framework for honest and transparent governance and financial propriety in the public sector. The procurement reform initiatives of National Treasury aim to ensure a transparent, fair and corruption-free public sector procurement environment, while contributing strongly to black economic empowerment.
- *Human resource development:* The Treasury, together with the National Department of Education, convenes a technical committee and joint MinMec for consultations on the financing and development of education services. The introduction of a wage incentive, announced in the 2001 Budget, will further reinforce skills development.
- *Public sector transformation:* Treasury's contributions start with budget reform to refine the medium term expenditure framework and the integration of strategic

planning with the budget process, and through greater emphasis on monitoring and reporting on service delivery. Second, procurement reform and the development of improved financial management systems are needed to achieve better value for money and effective financial management information systems in both national and provincial departments. Apart from its role across departments in co-ordinating implementation of the PFMA, Treasury is one of the pilot departments where the new procurement approach is tested. Third, Treasury's role in overseeing intergovernmental fiscal and financial relations aims to achieve effective service delivery, sound and transparent financial flows and co-operative governance between the national, provincial and local spheres. Finally, publications like the *Budget Review*, *Estimates of National Expenditure*, *Medium Term Budget Policy Statement* and *Intergovernmental Fiscal Review*, are structured and designed to provide accessible, reliable and thorough information to all citizens. The annual Budget is accompanied by a *People's Guide* in several languages that is widely distributed.

- *Implementation of the PFMA*: In 2000/01, 70 per cent of national departments submitted their annual financial statements for auditing two months after the end of the financial year. The remaining 30 per cent of departments did so within 13 days after the prescribed date. Provincial departments achieved similar successes. The Auditor-General, in his report on Auditing and Financial Matters in the Public Service, reported improvement in several areas of financial management, which can mainly be attributed to the implementation of the PFMA.

## **The organisational environment**

In 2000/01, restructuring of the former Finance and State Expenditure departments resulted in the creation of the National Treasury. This institutional arrangement ensures integrated budget and financial management that benefits all government departments and those that engage with the Government.

Over the past eighteen months, priorities were to develop and implement a new structure and fill core senior management and professional positions. Seven Deputy Directors-General were appointed to head the newly established divisions, and a process to fill Chief Director positions has been under way since 2001. The plan is to fill systematically positions in the Treasury on merit, within the human resources policy frameworks around employment equity and empowerment. A specific focus is the improvement of systems and procedures to streamline the functioning of these new structures and staff. The coming year will see a concerted drive to implement effective performance management processes and awards.

Eight divisions were created: the Budget Office, Economic Policy and International Financial Relations, Corporate Services, Specialists Functions, Intergovernmental Relations, Public Finance, the Office of the Accountant-General, and Asset and Liability Management. To secure strategic alignment, eight programmes were formed. Most correspond to the divisions, but with exceptions where strategic considerations require cross-divisional links. For example, the *Economic planning and budget management programme* deals with macro-economic, financial and fiscal policy advice, expenditure analysis and planning, tax policy advice and co-ordination of the budget process across the different spheres of government and therefore incorporates the Budget Office and Intergovernmental Relations divisions. The eight programmes are:

- *Administration* covers policy leadership and overall management of the Treasury.

- *Economic planning and budget management* deals, across the three spheres of government, with macroeconomic, financial and fiscal policy advice, expenditure analysis and planning, tax policy advice and co-ordination of the budget process.
- *Asset and liability management* provides for oversight of Government's financial assets and public entities as well as the management of debt and contingent liabilities.
- *Procurement management, financial systems and PFMA implementation co-ordination* provides for regulation and oversight of public sector procurement through policy formulation; management of general supply contracts on behalf of national government; and acquisition and support of standardised financial systems for national and provincial government. It also entails co-ordination of implementation of the Public Finance Management Act (PFMA) and capacity building.
- *Financial accounting and reporting* incorporates Government accounting policy and standards, preparation of consolidated financial statements and improvement and integration of financial management.
- *Provincial and local government transfers* provides for specified grants to the provincial and local spheres of government.
- *Civil and military pensions, contributions and other benefits* provides for pension and post-retirement medical benefit obligations to former employees of state departments and bodies, and for similar benefits for retired members of the military.
- *Fiscal transfers* includes management of transfers to various authorities and institutions in terms of statutes and international agreements, such as the South African Revenue Service, the Development Bank of Southern Africa, the Financial and Fiscal Commission and some signatories of Rand Common Monetary Agreement.

## **Part B: Strategic and operational plans**

### **Strategic focus**

For the three-year period ahead, the strategic focus is on:

- Macro and micro policies for economic growth and income redistribution;
- Sound budgeting and financial management and equitable division of resources between the three spheres of government;
- Ensuring that tax policy is fair and targeted, enabling Government to raise fiscal revenue efficiently, stably and equitably and in accordance with macro economic objectives;
- Sound management of Government's financial assets and liabilities through prudent cash management, asset restructuring, financial, management and management of the debt portfolio; and
- Promoting and enforcing transparency and effective management of revenue, expenditure, assets and liabilities in all spheres of government.

- Further refinement of the organisational structure, appropriate staffing, as well as putting in place modernised human resources, procurement and IT systems.
- The various programmes and divisions form the strategic vehicles through which the strategic objectives listed above are to be achieved.

### Service delivery plan

The table below provides a summary of the purpose and financial plan of the various programmes for the MTEF period, followed by more detailed outlines of the strategic and operational goals of the different programmes and divisions.

**Table 1: Service delivery plan across programmes**

Name	Main purpose	MTEF 2002/03	MTEF 2003/04	MTEF 2004/05
		R'000	R'000	R'000
Administration	Policy leadership and overall management of National Treasury.	77 516	82 678	87 764
Expenditure planning and budget management	Deals with macroeconomic, financial and fiscal policy advice, expenditure analysis and planning, tax policy advice and coordination of budget processes. It includes intergovernmental fiscal relations and international economic relations.	105 274	120 705	134 546
Asset and liability management	Oversees Government's financial assets and public entities, debt management and management of contingent liabilities.	31 465	33 131	34 697
Procurement management and financial systems and PFMA implementation and coordination	Regulating and overseeing public sector procurement through policy formulation; management of general supply contracts on behalf of national government; acquisitions and support of standardised financial systems for national and provincial government; coordination of PFMA implementation; and ensuring departments have the skills to apply the Act .	244 170	250 631	250 916
Financial accounting and reporting	Incorporates Government accounting policy and standards, preparation of consolidated financial statements and improvement and integration of financial management.	146 092	154 683	163 833
Provincial and local government transfers	Provides for specified grants to the provincial and local spheres of government.	4 657 000	5 250 000	5 612 040
Civil and military pensions, contributions and other benefits	Provides for pension and postretirement medical benefit obligations to former employees of state departments and bodies, and for similar benefits for retired members of the military.	1 915 635	2 029 569	2 163 966
Fiscal transfers	Management of transfers to various authorities and institutions in terms of statutes and international agreements.	4 968 063	5 325 150	5 827 756

## Programme plans and activities

### Programme 1: Administration

#### Three-year plan

#### One-year operational plan

#### Strategic Goal

To render effective management and administrative support to the core business divisions of the National Treasury

#### Policy and strategic context

- Following the creation of the National Treasury through merging the former departments of Finance and State Expenditure in 2001/02, priorities for the 2002 MTEF include staffing the new divisions, developing the human resources policies and procedures required for employment equity, and improving systems. Particular challenges include introducing a performance management system, improved use of information technology, and establishing a comprehensive education, training and development programme.
- In the light of the requirements of the Public Finance Management Act (PFMA), a series of public finance management reforms have been introduced over the past two years. The challenge continues to meet the demands of the PFMA, and Programme 1 is the focal point for internal National Treasury compliance with the new dispensation.
- The National Treasury is one of the pilot departments to spearhead the procurement reform in government. This includes the implementation of an electronic tender system to test the feasibility of e-procurement in government.
- Given the National Treasury's policy agenda for financial and fiscal reform, legal support is required in processing major legislation like the Municipal Finance Management Bill, the Financial and Fiscal Commission Amendment Bill and the Money Bills Amendment Procedure Bill. Proposed constitutional amendments to ensure appropriate interventions in municipalities faced with financial emergencies will be a major legislative item over the medium term.
- The need has been identified to improve internal and external communication. The former is important for business processes and sound human resource practice; the latter is about enhancing the flow of information between the National Treasury and stakeholders and the image of the National Treasury in doing so.

## Strategic Objectives

- Provide strategic leadership in National Treasury's transformation process.
- Oversee the National Treasury's financial management and departmental procurement functions.
- Ensure National Treasury's compliance with the PFMA through establishing and sustaining the necessary systems, procedures, processes and structures
- Ensure effective internal and external communication.
- Empower management to employ sound human resources practices.
- Enhance performance management based on monitored performance contracts.
- Facilitate a motivating, productive and creative working environment.
- Provide a service in security and facilities management.
- Continuously modernise and update information and communication technology.
- Co-ordinate and provide legal services to the National Treasury and, where required, to the rest of Government.

## Outputs and activities

Guided by the divisional objectives, and informed by the policy context sketched above, Corporate Services' key short- to medium-term initiatives are:

- **Fine-tuning restructuring and transformation process:** In 2000/01 major restructuring saw the former Finance and State Expenditure departments merged into one Department, the National Treasury. Considerable effort went into developing and implementing a new structure and filling core senior management and professional positions. This process must now be consolidated through further appointments, through ensuring employment equity, and through improving and renewing systems and procedures. *Key appointments, shaping employment equity profile of staff to meet public service targets*
- **Implementing the PFMA:** Many PFMA requirements have been met, but steps must be taken to ensure full compliance and to cement the capacity required in this regard. This includes establishing a fully operational Internal Audit function and Committee, and ensuring regular reporting in accordance with the Treasury Guidelines, accurately, *Fully operational Audit committee; monthly reporting and financial statements on time; outsourcing of*

verifiably and on time. Outsourcing of the internal audit function is a short-term focus.

*time; outsourcing of internal audit function*

- **Procurement reform:** The Treasury is one of the pilot departments for the new decentralised procurement system, aimed at improved procedures, transparency and meeting empowerment targets. Further streamlining of procedures will therefore continue with annual targets on BEE and SMMEs set. A new e-procurement system will also be implemented.
- **Enhancing human resource practices:** Driven by the need for quality service and a rewarding working environment, the next three years will see significant steps to implement effective performance management and related awards, as well as to develop and recruit appropriate skills. The intention is also to enhance social responsibility towards employees by providing appropriate support to staff at all levels to make their working environment easier and address their personal needs that are affected by the workplace.
- **Improvement of information technology:** The division has already ensured significant continuous upgrading of IT systems and this will continue. The aim is a paperless environment, with information technology that supports the core functions of the Treasury swiftly, effectively and appropriately. Further details are provided in annexure D1.
- **A more effective communication service:** Working with divisions, Corporate Services will try to make publications more user-friendly and interactions and exchanges with the media will seek to develop a better mutual understanding. One option under investigation is exchange programmes to give media practitioners insight into the workings of the Treasury, and to acquaint the latter with media perspectives. Call centres for internal and external enquiries are also being established.
- **Broadening the legal service:** The legal component of Corporate Services has developed from essentially an advisory function into a more comprehensive function. This is related to the need to devise and implement important new public finance legislation: such an immediate priority area being the Municipal Finance Management Bill. The legal team's capacity to provide legal services, support litigation and prepare legislation will be further enhanced.

*Programme fully operational; empowerment targets met; manual in use by 31 March*

*Skills audit done by June. ETD Unit operational; new performance management system introduced*

*Continuous improvement of technology, supported by appropriate staff training*

*Internal newsletter by year-end; exchange programme with media mooted; Annual Report by 30 September*

*Municipal Finance Bill drawn up; legal team's capacity augmented*

**Table 2: Key outputs, indicators and targets for Programme 1: Administration**

Sub-programme	Output	Output measure/ indicator	Target
Financial Management	Full compliance with PFMA and full implementation of procurement reform	<ul style="list-style-type: none"> <li>▪ Unqualified audit</li> <li>▪ % compliance with new procurement programme</li> </ul>	<p>31 July 2002</p> <p>100% with new procurement programme by 30 June 2002</p>
Human Resource Management	Transformation of National Treasury through restructuring and the implementation of new HR systems	<p>% of policies and procedures finalised</p> <p>Detailed structure fully in place for all Divisions</p>	<p>60% of policies and procedures finalised by 31 March 2003</p> <p>First round of appointments completed by June 2002; thereafter continuous filling of positions in line with divisional strategies</p>
Information, Communication & Technology	<p>Improve leverage of IT investment</p> <p>An operational internal and external communication programme and new corporate image</p>	<p>% implementation of new &amp; updated IT systems</p> <p>% increase in visits to the intranet (staff) and Treasury website (public)</p>	<p>50% implementation by 30 September 2002 and 100% by 31 March 2003</p> <p>50% increase by 31 December 2002</p>
Legal services	Diverse legal and legislative services	<p>Meet divisional legal service needs in terms of time and quality</p> <p>Draft Bills of quality introduced on time</p>	<p>Throughout 2002 as required by divisions</p> <p>As determined by the relevant divisions</p>

**Table 3: Expenditure estimates**  
**Programme 1: Administration**

Subprogramme	Expenditure outcome			Adjusted Appropriation	Medium-term expenditure estimate		
	Audited 1998/99	Audited 1999/00	Preliminary outcome 2000/01		2001/02	2002/03	2003/04
R thousand							
Minister <sup>1</sup>	503	518	598	646	685	722	759
Deputy Minister <sup>2</sup>	409	425	442	477	506	533	560
Management	3 319	5 011	9 653	7 232	8 585	9 111	10 328
Corporate Services	41 739	40 217	58 519	68 913	67 614	72 179	75 977
Sectoral Education and Training Authority (SETA)	-	-	-	-	126	133	140
Government Motor Transport	-	-	-	1	-	-	-
Capital Works	-	-	34 451	-	-	-	-
<b>Total</b>	<b>45 970</b>	<b>46 171</b>	<b>103 663</b>	<b>77 269</b>	<b>77 516</b>	<b>82 678</b>	<b>87 764</b>
Change to 2001 Budget Estimate				8 870	6 603	6 295	

<sup>1</sup> Payable as from 1 April 2001. Salary: R516 812. Car allowance: R129 203.

<sup>2</sup> Payable as from 1 April 2001. Salary: R381 871. Car allowance: R95 468.

#### Economic classification

<b>Current</b>	<b>44 674</b>	<b>43 068</b>	<b>52 839</b>	<b>68 477</b>	<b>74 525</b>	<b>78 533</b>	<b>84 772</b>
Personnel	25 758	23 065	23 079	34 117	35 976	35 317	37 998
Transfer payments	-	-	-	276	126	133	140
Other current	18 916	20 003	29 760	34 081	38 423	43 083	46 634
<b>Capital</b>	<b>1 296</b>	<b>3 103</b>	<b>50 824</b>	<b>7 795</b>	<b>2 991</b>	<b>4 145</b>	<b>2 992</b>
Transfer payments	-	-	-	-	-	-	-
Acquisition of capital assets	1 296	3 103	50 824	8 795	2 991	4 145	2 992
<b>Total</b>	<b>45 970</b>	<b>46 171</b>	<b>103 663</b>	<b>77 269</b>	<b>77 516</b>	<b>82 678</b>	<b>87 764</b>

#### Standard items of expenditure

Personnel	25 758	23 065	23 079	34 117	35 976	35 317	37 998
Administrative	5 080	5 930	7 536	13 786	13 023	14 250	15 129
Inventories	1 264	1 026	1 902	2 244	2 452	2 182	2 434
Equipment	2 944	3 517	16 658	9 412	3 653	4 841	3 708
Land and buildings	-	-	34 451	-	-	-	-
Professional and special services	10 630	12 030	19 893	16 234	22 286	25 955	28 355
Transfer payments	-	-	-	276	126	133	140
Miscellaneous	294	603	144	1 200	-	-	-
<b>Total</b>	<b>45 970</b>	<b>46 171</b>	<b>103 663</b>	<b>77 269</b>	<b>77 516</b>	<b>82 678</b>	<b>87 764</b>

## **Programme 2: Economic planning and budget management**

### **Three-year plan**

### **One-year operational plan**

#### **Strategic Goal**

- To provide advice and professional support to the Minister of Finance on economic and fiscal policy, financial regulation, and tax policy; to oversee the management of public finances in all three spheres of government; to co-ordinate South Africa's international financial relations; and to co-ordinate the annual budget process.

#### **Policy and strategic context**

- As Government's broader economic policy stance has shifted from stabilisation to growth, the focus of fiscal policy analysis is now on growth-enabling policy measures and strengthening of infrastructure planning and financing. Budget reform remains focused on the quality and content of medium term expenditure planning and reporting. Steps are also being taken to include special funds, agencies and general government entities in the medium-term budget planning process.
- Steady progress has been made in recent years in improving the quality and reliability of public finance statistics, publishing of up-to-date revenue and expenditure data and preparing consolidated analyses of medium-term estimates. In the years ahead the statistical database will be further developed and refined, including statistics on accounts, funds and agencies not currently part of the regular budget framework.
- Substantial progress has been made in developing a coherent framework for municipal financial management reform. This includes a project to modernise accounting and financial reporting standards for municipalities completed in 1999, supplemented by a user-friendly implementation guide and an intensive training programme countrywide. Legislation to regulate municipal finances is currently being finalised. In 2001, an amendment was passed to enable municipalities to bind future councils to loan agreements. During early 2002, adapted amendments to allow national and provincial intervention in the case of financial emergencies, will be resubmitted to parliament.
- Economic Policy and International Relations priorities revolve around South Africa's long-term growth and development challenges. The development of the New Partnership for Africa's Development (NEPAD), particularly in the areas of

economic governance and mobilising private capital flows, will be a central priority in the years ahead. Regional initiatives include development of a memorandum of understanding amongst South African Development Community (SADC) member states on macroeconomic convergence and regional integration and conclusion of the SA Customs Union revenue-sharing negotiations. With regard to multilateral development finance institutions, the division is also fulfilling a significant role by contributing to policy debates within the International Monetary Fund (IMF), the World Bank and the African Development Bank.

- *The Public-Private Partnership Unit* continues to expand in scope and complexity of work. The Unit regulates PPPs in terms of the relevant PFMA provisions and supports national and provincial departments in developing and negotiating PPP contracts. Over 350 national and provincial officials have attended training courses and a consolidated set of policy guidelines has been published. A growing number of projects in various sectors have been under review, and there is considerable room for experimentation and innovation.
- A comprehensive *Development Co-operation Report* released in 2001 reviewed Overseas Development Assistance between 1994 and 1999. Following this, a new policy framework and procedural guidelines have been prepared.

## **Strategic Objectives**

The four sub-programmes under Programme 2 reflect the organisation of these functions into four separate divisions – Public Finance, the Budget Office, Intergovernmental Relations, and Economic Policy and International Relations. The medium term expenditure estimates for the overall Programme 2 provide for a marked expansion of capacity in these areas of the Treasury's work. Priority areas for growth in personnel numbers and operational expenditure include:

- International relations, particularly associated with the NEPAD initiative and the Development Committee of the World Bank, which is chaired by the Minister of Finance
- Tax policy
- Financial regulation and budget coordination
- Enhanced support for municipal budgeting and financial restructuring

- Public-private partnerships
- Fiscal and public expenditure analysis
- Technical support for infrastructure planning and project management.

## Outputs and activities

Core activities include co-ordinating the budget process; liaising with the Reserve Bank, Nedlac and the Financial and Fiscal Commission; supporting the Budget Council and several interdepartmental technical committees; and managing international development finance.

*Nedlac liaison a key activity*

The programme's work is done through four divisions:

- **Public Finance:** The Public Finance function comprises sectoral economic and fiscal analysis and oversight of departmental budget plans and financial management:
  - *Social Services* co-ordinates interdepartmental technical committees in education, health and welfare and is also Treasury's principal interface with the Departments of Labour; Arts, Culture, Science and Technology; Sport and Recreation. The division represents Treasury on the board of the National Student Financial Aid Scheme and on the Committee of Inquiry into Social Security and contributes to inter-sectoral initiatives such as the poverty relief programme, the integrated HIV-Aids programme and the rural development and urban renewal initiatives.
  - *Economic Services* aims to align sectoral policies with the broader economic and development objectives of Government. This includes contributing to policy development in the agriculture, transport, industrial development, energy, water affairs, communications and other sectors and support for fiscal and financial planning in economic and infrastructural development.
  - *Protection Services* provides an annual integrated review of the justice, police and correctional services budgets and for expenditure advice on defence and the intelligence agencies. Core projects include monitoring defence procurement spending, support for the modernisation of the criminal justice system, an investigation of prison building costs and management standards and improved financial management in the Department of Justice and its agencies.
  - *Administrative Services* oversees the budgets and programmes of Government's central administration and financial departments. Priorities include the proposed creation of a State Property Agency by the Department of

*Review of poverty relief programme to be undertaken*

*Guidelines for policy evaluation and costing of legislation on 2002 agenda*

*Monitoring of defence procurement spending*

creation of a State Property Agency by the Department of Public Works; improved co-ordination of information technology services and related expenditure; and establishment of a trading account for the training activities of the SA Management and Development Institute.

- *The Technical Assistance Team*, which is co-funded by the European Union until March 2004, provides management support and capacity building for key RDP projects and initiatives. Improved project management and financial management capacity in government are medium-term priorities.

*Public Works  
budgeting reform  
under investigation*

*Capacity building for  
infrastructure project  
management a priority*

- **Budget co-ordination:** The Budget Office is responsible for fiscal policy advice, budget reform, expenditure planning, co-ordinating international technical assistance and donor finance, promoting public-private partnerships and developing public finance statistics. Key outputs include the annual *Medium Term Budget Policy Statement* and the *Budget Review*.

*Critical Budget  
outputs include annual  
Budget Review*

There are five sub-divisions in this area:

- *Fiscal Policy:* The focus is on growth-enabling policy and improved infrastructure planning and financing, as well as public sector reforms aimed at better service delivery. Extending employee benefits such as medical aid and developing pay progression models receive attention in the quest for a system that rewards performance, encourages career planning and enhances competencies.
- *Expenditure planning:* To improve medium term expenditure planning and reporting, budget reform priorities include reinforcing political oversight of expenditure priorities, strengthening the link between strategic plans, medium term budgets and annual reporting, and translating service delivery indicators into measurable objectives, outputs and performance measures. In addition, medium term expenditure review capacity and Treasury Guidelines on expenditure planning and budgeting, need to be developed further.
- *Public Finance Statistics:* Building on improvements in recent years to enhance the quality, reliability and relevance of public finance statistics, the statistical database will be further developed and refined, including statistics on accounts, funds and agencies not currently part of the regular budget framework.
- *The Public-Private Partnership Unit* continues to expand in scope and complexity of work. The Unit regulates PPPs in terms of the relevant PFMA provisions and supports national and provincial departments in developing and negotiating PPP contracts. Training will continue and some 40 projects are currently under review, including hospital

*A unit to support  
infrastructure  
planning and  
budgeting established  
this year; special  
funds, agencies and  
general government  
entities included in  
MTEF process*

*New chart of accounts  
for departmental  
revenue and  
expenditure  
introduced*

*Guidelines on PPP  
contracts, further  
training and capacity*

facility management, transport fleet management, forestry, dam construction, departmental accommodation services, rail transport, prisons, identification systems and eco-tourism initiatives. *building*

- *The International Development Cooperation* division oversees the flow of overseas development assistance (ODA) to South Africa. Implementation of the new policy framework and procedural guidelines developed after the 2000 review of such assistance will receive attention over the MTEF.

*On-line ODA management information system set for launch in 2002*

- **Intergovernmental Relations:** The Intergovernmental Relations division co-ordinates fiscal relations between national, provincial and local government, promotes sound provincial and local government finances and contributes to capacity building in the provincial and local government spheres. The key objectives are:

*Priorities for 2002 include improved financial management in provincial departments and municipalities,*

- To reinforce co-operative governance in support of sound provincial and local government finances.
- To oversee implementation and compliance with all legislation and regulations governing intergovernmental relations pertaining to finance and financial management, especially the Intergovernmental Fiscal Relations Act, Division of Revenue Act, Public Finance Management Act and the soon-to-be promulgated Municipal Finance Management Bill. Moving the MFMB – and related constitutional amendments to facilitate national intervention in support of municipalities in financial distress – through parliament will be priorities in the first year. Implementation of this new legislative framework will receive attention over the next few years, and will be supported through a range of pilot projects in various municipalities.
- To manage the intergovernmental framework, including overseeing the evolution and maintenance of the provincial and local government equitable share formulae.
- To develop and oversee provincial and local government budget reform.
- The division supports the work of the Budget Council and Budget Forum and the Technical Committee for Finance and oversees the preparation of the annual Division of Revenue Act. The publication of the annual *Intergovernmental Fiscal Review* provides an in-depth account of developments in provincial and municipal finances and service delivery.

*A user-friendly guide to local government budget reform will be published this year. Training and workshops are being undertaken nationwide, attended by both councillors and officials*

- **Economic Policy and International Relations** is responsible

for macroeconomic analysis and policy advice, managing international financial relations, tax policy analysis and advice and financial regulation.

- *The Macroeconomic Policy Unit* is responsible for monitoring, modelling and providing policy input on the general state of the economy, within the context of the country's macroeconomic framework. Its key mandate is co-ordinating and managing macroeconomic policy to ensure stable and competitive economic conditions as a basis for rapid, sustainable growth and employment creation. The unit's work includes monitoring and analysing macroeconomic, financial market, balance of payments and key sectoral developments across the economy, engaging in policy dialogue and advising the Minister on appropriate policies and their implementation. The unit also takes the lead in representing Treasury in the Public Finance chamber of Nedlac.
- The Treasury's work on *International Economic Relations* includes co-ordination of relations with the International Monetary Fund (IMF), the World Bank, the African Development Bank and several multilateral programmes. The Minister of Finance is currently chairman of the Development Committee of the IMF and the World Bank and a special envoy for the United Nations Financing for Development conference, due to be held in Mexico in March 2002. The Treasury also continues to engage with the G20 and other countries on the reshaping of the global financial system and to advance proposals for democratisation of international financial institutions, debt relief and a more equitable distribution of the benefits of globalisation. The development of the New Partnership for Africa's Development (NEPAD), particularly in the areas of economic governance and mobilisation of private capital flows, will be a central priority in the years ahead.
- The *Financial Regulation* division plays a central role in developing legislation on financial services, protection of consumers' interests and greater access to banking and other financial services for SMMEs and low-income individuals, and regulation of corporate restructuring transactions with significant exchange control implications.
- *Tax Policy*: The Treasury's tax policy work is focused on revenue stability and the efficiency and competitiveness of the South African economy, while maintaining an equitable distribution of the tax burden. Significant tax relief was announced in the 2001 and 2002 Budgets. This included personal income tax cuts, a wage incentive to encourage formal sector employment, extending the VAT zero-rate to illuminating paraffin, further diesel fuel concessions for the

*Economic policy research includes labour market developments, capital market flows, regional monetary arrangements, administered prices and inflation and sectoral competitiveness*

*International priorities this year include financing for sustainable development and the development of NEPAD*

*Protection for consumers and improved banking access for lower-income citizens*

primary production sector, accelerated depreciation allowances for capital purchases by small business corporations and a strategic investment incentive, focusing primarily on manufacturing. Against the background of the tax reforms undertaken in the past two years, the 2002 Budget heralds a period of consolidation. The aim is to further moderate the personal income tax burden.

**Table 4: Key outputs, performance measures/ indicators and targets 2002/03 for Programme 2**

Sub-programme	Output	Output indicator	Target
Public Finance	Sectoral and departmental policy advice and expenditure analysis	Timely and relevant analysis and advice	Measurable indicators for all budget programmes
	Analysis of budget submissions	Quality of expenditure estimates	
	Project management support	Improved project and financial management	More effective and efficient public service delivery
Budget Co-ordination	Annual budget framework and division of revenue	Integrity of budget framework	Broadening scope of budget and public finance statistics
	Budget documentation and public finance statistics	Quality of budget documentation	On time, accessible and accurate
	Public-private partnership agreements	Value for money and risk transfer	Growth in PPPs
Intergovernmental Relations	Equitable division of revenue between spheres	Integrity of intergovernmental financial relations	Streamlined financial relations with provinces and municipalities
	Provincial and local government grants and fiscal framework		
	Support for provincial and municipal financial development	Improved provincial and municipal financial management	Sound and sustainable local and provincial finances
Economic Policy and International Relations	Macroeconomic policy and advice	Coherence of economic policy	Sustainable growth and development
	Financial policy advice, legislation and regulations	Deepening of financial markets	
	Tax policy analysis and advice	Tax reform and policy proposals	Robust tax performance
	International financial relations	International participation	Effective international representation of SA

**Table 5: Expenditure estimates**  
 Programme 2: Economic Planning and Budget Management

Sub-programme	Expenditure outcome			Adjusted appropriation	Medium-term expenditure estimate		
	Audited	Audited	Preliminary outcome		2002/03	2003/04	2004/05
R thousand	1998/99	1999/00	2000/01	2001/02			
Public Finance	6 996	7 143	9 320	14 203	29 011	32 604	35 118
Budget Coordination	14 730	16 292	10 964	13 735	28 387	33 099	37 676
Intergovernmental Relations	6 324	7 273	7 739	10 643	17 660	20 465	22 898
Economic Policy	11 989	13 109	16 508	26 428	30 216	34 537	38 854
<b>Total</b>	<b>40 039</b>	<b>43 817</b>	<b>44 531</b>	<b>65 009</b>	<b>105 274</b>	<b>120 705</b>	<b>134 546</b>
Change to 2001 Budget Estimate				(10 000)	28 567	35 998	
<b>Economic classification</b>							
<b>Current</b>	<b>35 247</b>	<b>42 055</b>	<b>42 593</b>	<b>61 784</b>	<b>102 582</b>	<b>117 810</b>	<b>131 518</b>
Personnel	25 358	29 365	29 491	40 539	69 172	80 711	91 036
Transfer payments	–	–	–	–	–	–	–
Other current	9 889	12 690	13 102	21 247	33 410	37 099	40 482
<b>Capital</b>	<b>4 792</b>	<b>1 762</b>	<b>1 938</b>	<b>3 223</b>	<b>2 692</b>	<b>2 895</b>	<b>3 028</b>
Transfer payments	–	–	–	–	–	–	–
Acquisition of capital assets	4 792	1 762	1 938	3 223	2 692	2 895	3 028
<b>Total</b>	<b>40 039</b>	<b>43 817</b>	<b>44 531</b>	<b>65 009</b>	<b>105 274</b>	<b>120 705</b>	<b>134 546</b>
<b>Sub-programme</b>							
Sub-programme	Expenditure outcome			Adjusted appropriation	Medium-term expenditure estimate		
	Audited	Audited	Preliminary outcome		2002/03	2003/04	2004/05
R thousand	1998/99	1999/00	2000/01	2001/02			
<b>Standard items of expenditure</b>							
Personnel	25 358	29 365	29 491	40 539	69 172	80 711	91 036
Administrative	4 681	4 782	4 796	8 476	13 369	14 518	15 624
Inventories	1 280	1 844	999	3 080	3 768	4 033	4 301
Equipment	5 201	2 081	2 186	4 669	2 929	3 140	3 278
Land and buildings	–	–	–	–	–	–	–
Professional and special services	3 025	5 101	6 826	8 245	16 036	18 303	20 307
Transfer payments	–	–	–	–	–	–	–
Miscellaneous	494	644	233	–	–	–	–
<b>Total</b>	<b>40 039</b>	<b>43 817</b>	<b>44 531</b>	<b>65 009</b>	<b>105 274</b>	<b>120 705</b>	<b>134 546</b>

### **Programme 3: Asset and liability management**

#### **Three year plan**

#### **One year operational plan**

##### Strategic Goal

To manage the Government's asset and liability portfolio in a manner that ensures prudent cash management, asset restructuring and financial management, and optimal management of the government's domestic and foreign debt portfolio.

##### **Policy and strategic context**

- Interest costs and risks associated with funding make a substantial demand on scarce resources available to the country. Prudent management of the total government loan debt of approximately R442,7 billion is therefore critical. The continued shift from strategic to more tactical debt management reflects the need to maintain liquidity and integrity under conditions of a declining government funding requirement. The growing sophistication and efficiency of the South African bond market facilitate this.
  - Measures like the announcement of zero auctions, development of a full yield curve of inflation linked bonds and continued switches and buy-backs of bonds will be used to maintain and enhance the liquidity of the government securities market. A new programme to facilitate Separate Trading of Registered Interest and Principal of Securities, implemented in January 2002 will be made fully operational.
  - South Africa's participation in the international capital markets remains a key priority. Since last year about R33 billion has been raised in foreign bond markets, further establishing the government as a reliable issuer in Euro, US Dollar and Japanese Yen currencies.
  - The risk management framework introduced, entails quantification and limiting of risk that arise from exogenous factors, as well as development of a debt benchmark for government. These impact on decisions about debt portfolio composition. Efforts to coordinate intergovernmental cash requirements through the Corporation for Public Deposits are ongoing. This will contribute to lower borrowing costs at the national and provincial level and assist in optimising government's credit risk management.
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- Ongoing support to public enterprises should bolster Government's accelerated privatisation programme. In addition to anticipated privatisation receipts, dividend receipts will bolster public coffers as considerable progress has been made to normalise the dividend policies and tax status of all major commercial public enterprises.

### **Strategic Objectives**

- Cash management and playing a role in the restructuring and financial management of state assets, especially government business enterprises.
- Managing domestic and foreign debt portfolios, ensuring that risk is minimised, repayments made and the most favourable terms obtained.

### **Outputs and activities**

- The programme is responsible first for cash management in government and support for the restructuring and financial management of state assets, especially government business enterprises. This includes co-ordinating the borrowing activities of public entities, advising public entities on the financial aspects of restructuring, and monitoring the corporate governance of general government bodies and public entities. A database is kept of the financial assets and liabilities of national government, and guarantees and other contingent liabilities are monitored.
- A second set of responsibilities relate to managing the Government's domestic and foreign debt portfolios, ensuring that risk is minimised, repayments made and the most favourable terms obtained. This contributes to the orderly functioning and development of the domestic debt capital market and manages government's exposure to financial risks arising from activities of general government bodies and public entities.

*Finalise cash coordination across government*

*Finalise Telkom listing*

*Medium term CPI and floating bond to be issued*

*Move to single pricing approach*

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**Table 6: Key outputs, performance measures/indicators and targets 2002/03 for Programme 3**

Sub-programme	Output	Output measure/ indicator	Target
Liability Management	A successful borrowing strategy for government	Government's planned borrowing requirements are met	March 2003
		A comprehensive investor relations programme	March 2003
Asset Management	Meeting all debt obligations	All payments made timeously	March 2003
	Successful management of process to get maximum financial proceeds from the restructuring of state assets	Restructuring proceeds, meets targets and takes place within the planned timeframe	March 2003
Financial Operations	Quarterly consolidated borrowing programme and debt management profile of Government	Quality programme and profile on time	Quarterly
	Sound internal controls and timeous reporting	Annual audits outcome and deadlines met	March 2003
	Efficient cash management	Publish a revised framework Implement intergovernmental cash coordination	June 2002 April 2002
Strategy and Risk Management	Improve operational efficiency of the ALM division	Implement debt recording system and produce an information system strategy	April 2002 and December 2002 respectively
	Implement debt benchmark recommendations	Achieve management of the debt in relation to the benchmark	April 2002
	Implement performance management system	Proper reporting framework and compliance procedures in place	April 2002
	Produce annual portfolio review	Quality, timeliness and dissemination of document	March 2003

**Table 7: Expenditure estimates**  
**Programme 3: Asset and Liability**  
**Management**

Subprogramme	Expenditure outcome			Adjusted appropriation 2001/02	Medium-term expenditure estimate		
	Audited 1998/99	Audited 1999/00	Preliminary outcome 2000/01		2002/03	2003/04	2004/05
R thousand							
Asset Management	1 537	1 970	3 096	4 444	5 767	6 074	6 361
Liability Management	6 555	8 401	13 201	15 284	11 966	12 598	13 194
Financial Operations	-	-	-	-	8 862	9 332	9 772
Strategy and Risk Management	-	-	-	-	4 870	5 127	5 370
<b>Total</b>	<b>8 092</b>	<b>10 371</b>	<b>16 297</b>	<b>19 728</b>	<b>31 465</b>	<b>33 131</b>	<b>34 697</b>
Change to 2001 Budget Estimate				1 820	11 464	11 227	

**Economic classification**

<b>Current</b>	<b>7 464</b>	<b>10 005</b>	<b>11 429</b>	<b>19 114</b>	<b>30 601</b>	<b>32 028</b>	<b>33 484</b>
Personnel	5 460	6 805	7 366	9 331	16 242	17 108	17 932
Transfer payments	-	-	-	-	-	-	-
Other current	2 004	3 200	4 063	9 783	14 359	14 920	15 552
<b>Capital</b>	<b>628</b>	<b>366</b>	<b>4 868</b>	<b>614</b>	<b>864</b>	<b>1 103</b>	<b>1 213</b>
Transfer payments	-	-	-	-	-	-	-
Acquisition of capital assets	628	366	4 868	614	864	1 103	1 213
<b>Total</b>	<b>8 092</b>	<b>10 371</b>	<b>16 297</b>	<b>19 728</b>	<b>31 465</b>	<b>33 131</b>	<b>34 697</b>

**Standard items of expenditure**

Personnel	5 460	6 805	7 366	9 331	16 242	17 108	17 932
Administrative	936	1 138	1 813	2 060	4 813	4 893	5 122
Inventories	249	193	182	663	2 063	2 158	2 183
Equipment	751	384	4 904	824	1 037	1 299	1 430
Land and buildings	-	-	-	-	-	-	-
Professional and special services	621	1 762	1 994	6 850	7 310	7 673	8 030
Transfer payments	-	-	-	-	-	-	-
Miscellaneous	75	89	38	-	-	-	-
<b>Total</b>	<b>8 092</b>	<b>10 371</b>	<b>16 297</b>	<b>19 728</b>	<b>31 465</b>	<b>33 131</b>	<b>34 697</b>

## **Programme 4: Procurement management, financial systems and PFMA implementation co-ordination**

### **Three-year plan**

### **One-year operational plan**

#### **Strategic Goal**

To manage and regulate Government's procurement and supply chain management, implement and maintain standardised financial systems, and co-ordinate the implementation of the Public Finance Management Act and capacity building initiatives related to the PFMA.

#### **Policy and strategic context**

Progress with procurement management has been made in a number of areas.

- During November 2000, Cabinet directed that four pilot departments be selected to spearhead procurement reforms. Cabinet further directed that a Common Service Provider (CSP) be established in the National Treasury to replace the State Tender Board and the Office of the State Tender Board. Considerable progress has been made towards the implementation of these Cabinet directives. National Treasury is home to one of the pilot projects of the new approach.
- Regulations issued in terms of the Preferential Procurement Policy Framework Act, 2000 were promulgated on 10 August 2001. These Regulations promote uniformity in the preference systems applied by all organs of state. The application of these Regulations will increase involvement of historically disadvantaged individuals in the public procurement systems and also contribute to the achievement of other RDP objectives, such as the promotion of small, micro and medium enterprises (SMMEs).
- An electronic tender evaluation and contract management solution has been procured. This system will be tested in the National Treasury on a pilot basis, with a view to using the system as a basis for the implementation of an e-procurement system in government.
- A high-level management information system to be implemented over the next few years will enable Government to obtain information about total procurement in government and to monitor the extent to which procurement reform objectives are being achieved.

Significant revisions of governance practices in recent years had a fundamental impact on public sector management and associated information technology (IT) solutions. This necessitated an analysis of the financial applications (Financial Management System (FMS), Basic Accounting System (BAS), LOGIS, and PERSAL) to determine the sustainability, cost effectiveness and ability of these systems to support longer-term needs. It is envisaged that a new Enterprise Application Solution (EAS) will need to be phased in over a period of time. In the interim, existing systems will be maintained and enhanced in certain areas to meet the management challenges over the next few years. The priorities over the medium term are full migration from FMS to BAS; implementation of a Standard Chart of Accounts; maintenance and enhancement to provide for PFMA compliance regarding financial statements, debtors, creditors, and asset management functions; and increased user support and training.

Further implementing of the PFMA and securing appropriate training to improve public finance management also remain high priorities. A recent survey assessed the skills level of public finance practitioners. The results of this survey form the basis for a framework for future training in financial management in Government. A Validation Board has been established to evaluate material and courses. In addition, measures or benchmarks are being developed to assist accounting officers with continuous evaluation of and meaningful reporting on financial management.

### **Strategic Objectives**

- Development of a system of procurement and provisioning which is fair, equitable, transparent, competitive and cost effective.
- Provisioning of financial management systems that meet the requirements of PFMA and generally recognises accounting practices.
- Focus on assisting departments with capacity building initiatives related to the Public Finance Management Act

### **Outputs and activities**

- Regulating and monitoring supply-chain management in government and managing general supply contracts on behalf of National Government through a strategy that is both strategically relevant and practical.
- Implementing, maintaining and enhancing of accountable financial management systems.

*Completion of procurement strategy*

- Co-ordinating PFMA training initiatives of National Treasury.

*Evaluate training material and courses*

- Monitoring implementation of PFMA within National Treasury as well as other institutions.

*Regular reports to Cabinet and SCOP*

**Table 8: Key outputs, performance measures/indicators and targets for Programme 4: Procurement Management and Financial Systems**

Sub-programme	Outputs	Output measure/indicator	Target
Procurement Management	Regulating and monitoring supply-chain management in government.	Dismantle the State Tender Board	July 2002
		Completion of procurement strategy for government	September 2002
		Issue regulations and manuals in respect of supply chain management	April 2002
Financial Systems	Managing general supply contracts on behalf of National Government	% availability and stability of financial systems within working hours	98% system availability Monday to Friday from 7:30 to 16:30
		Extent of implementation of BAS in national departments	100% by March 2003
PFMA Implementation Co-ordination	Co-ordinate PFMA training initiatives of National Treasury	% of training material evaluated and accredited relevant to the needs and priorities of government	100%
		Number of courses presented that meet the training needs of government	6 courses
		Report bi-annually to Cabinet and SCOPA on progress made towards the implementation of the PFMA and improvement in financial management	September 2002 and March 2003

**Table 9: Expenditure estimates****Programme 4: Procurement Management, Financial Systems and PFMA Implementation and Coordination**

Subprogramme	Expenditure outcome			Adjusted appropriation	Medium-term expenditure estimate		
	Audited	Audited	Preliminary outcome		2002/03	2003/04	2004/05
R thousand	1998/99	1999/00	2000/01	2001/02			
Office of the State Tender Board	12 481	11 916	15 462	12 598	13 186	14 689	15 922
Procurement Management	3 171	3 113	3 787	8 954	11 706	12 366	13 133
PFMA Implementation Unit	-	-	1 156	4 759	9 399	9 718	9 809
Financial Systems	136 144	149 389	166 934	194 250	209 879	213 858	212 052
<b>Total</b>	<b>151 796</b>	<b>164 418</b>	<b>187 339</b>	<b>220 561</b>	<b>244 170</b>	<b>250 631</b>	<b>250 916</b>
Change to 2001 Budget Estimate				(4 380)	5 154	(876)	

**Economic classification**

<b>Current</b>	<b>147 753</b>	<b>159 648</b>	<b>185 065</b>	<b>217 904</b>	<b>242 401</b>	<b>249 018</b>	<b>249 214</b>
Personnel	16 684	17 560	19 490	23 970	27 655	29 778	31 348
Transfer payments	-	-	-	-	-	-	-
Other current	131 069	142 088	165 575	193 937	214 746	219 240	217 866
<b>Capital</b>	<b>4 043</b>	<b>4 770</b>	<b>2 274</b>	<b>2 654</b>	<b>1 769</b>	<b>1 613</b>	<b>1 702</b>
Transfer payments	-	-	-	-	-	-	-
Acquisition of capital assets	4 043	4 770	2 274	2 654	1 769	1 613	1 702
<b>Total</b>	<b>151 796</b>	<b>164 418</b>	<b>187 339</b>	<b>220 561</b>	<b>244 170</b>	<b>250 631</b>	<b>250 916</b>

**Standard items of expenditure**

Personnel	16 684	17 560	19 490	23 970	27 655	29 778	31 348
Administrative	3 939	3 126	2 334	4 609	4 831	5 005	5 553
Inventories	1 696	1 510	1 907	1 531	1 521	1 725	1 978
Equipment	4 396	5 178	3 023	3 133	2 788	2 514	2 641
Land and buildings	-	-	-	-	-	-	-
Professional and special services	124 831	136 752	160 402	187 318	207 375	211 609	209 396
Transfer payments	-	-	-	-	-	-	-
Miscellaneous	250	292	183	-	-	-	-
<b>Total</b>	<b>151 796</b>	<b>164 418</b>	<b>187 339</b>	<b>220 561</b>	<b>244 170</b>	<b>250 631</b>	<b>250 916</b>

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

### **Three-year plan**

### **One-year operational plan**

#### **Strategic Goal**

To develop new and enhance existing accounting policies and practices.

#### **Policy and strategic context**

The Financial Management Improvement Programme (FMIP) has been concerned with implementing Section 216 of the Constitution, 1996, by preparing financial statements in line with Generally Recognised Accounting Practices (GRAP) and with implementing GRAP standards as determined by the Accounting Standards Board. It has also set out to define and improve the format and content of financial statements as required by the PFMA. This will be benchmarked against international best practice. In addition, annual and calculable project costs are necessary as evidence of reliable documents for performance management and transparent expenditure.

Key priority areas are:

- Develop and implement accounting policies, guidelines and practices based on International Best Practice and benchmark against local Generally Accepted Accounting Practice. The policies would be compared with standards issued by the ASB and reviewed to ensure compliance. Standard Chart of Accounts will be developed to ensure compliance with reporting requirements and GFS classifications and implemented from June 2002.
  - Having accessible and available information to enable accounting officers to assess Government's financial position and condition, and to allow for the timing and volume of current and future cash flows and borrowings to be evaluated and predicted.
  - Developing a framework and issuing guidelines to enhance financial controls and reporting.
  - Developing policy, practices, guidelines and priorities for identifying, valuing, evaluating and recording assets, resulting in the creation of asset registers.
  - Ongoing accreditation of training institutions and training
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material for on-the-job-training of financial staff.

- Continuous improvement in accounting and reporting on the National Revenue and Reconstruction and Development Programme funds, taking further the process that led to the publication of the first set of financial statements for government departments for the year ended 31 March 2001

### Strategic Objectives

- Develop new and enhance existing accounting policies and practices.
- Ensure compliance with GRAP standards issued by the Accounting Standards Board.
- Improve timeliness, accuracy and efficiency of financial reporting
- Improvement in financial accountability through the issue of frameworks, policies and guidelines.

### Outputs and activities

Working through seven sub-programmes, the programme will deal with the following matters:

- **Financial Reporting on National Accounts:** The focus will be on accounting of the National Revenue and Reconstruction and Development Programme Fund, banking services for National Government, developing and implementing accounting policies, and preparing consolidated financial statements.
- **Financial Management and Improvement:** Apart from improving financial management, this also entails financial management training, internal audit services and assistance to the Institute for Public Finance and Auditing.
- **Service charges** by banks in respect of deposit account maintained on behalf of all departments.
- **The Management Information Systems Vulindlela** sub-programme enables the accurate and timely reporting in terms of the Public Finance Management Act and meeting the reporting requirements of Government Financial Statistics.
- **The Integrated Financial Systems** sub-programme provides for the identification, acquisition and implementation of Integrated Financial Systems to meet the requirements of Section 216 (1) of the Constitution and the Public Finance Management Act.

*Refinement and preparation of financial statement formats for 2003*

*Process development for and initiate certification of training institutions*

*Develop, implement standard chart of first quarter accounts*

*Develop Business Case and development and publication of*

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The Integrated Financial System will replace the existing *Request for Proposal* transversal systems.

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**Table 10: Key outputs, performance measures/indicators and targets for Programme 5: Financial Accounting and Reporting**

Sub-programme	Output	Output measure/ indicator	Target
Financial Management Improvement	Development and implementation of accounting policies and practices to comply with GRAP standards.	Timely issuing of accounting policies and practices	31 March 2003
		% of GRAP standards complied with.	75% by 31 March 2003
	Issue of guidelines for Asset Register	Timely issuing of guidelines for asset register	1 April 2002
	Internal audit policies and guidelines	Timely issue of internal audit policies and guidelines	31 March 2003
Financial Reporting on National Accounts	Monthly expenditure and consolidation reports	Timely publishing of reports	30 days after month end and 6 months after year end

**Table 11: Expenditure estimates Programme 5 Financial Accounting and Reporting**

Subprogramme	Expenditure outcome				Adjusted Appropriation	Medium-term expenditure estimate		
	Audited 1998/99	Audited 1999/00	Preliminary outcome 2000/01	Adjusted Appropriation 2001/02		2002/03	2003/04	2004/05
R thousand								
Financial Reporting for National Accounts	5 853	6 243	4 416	9 633	30 081	33 655	36 693	
Financial Management Improvement	61 360	63 157	78 292	11 738	12 568	14 429	17 271	
Investment of Public Monies	–	–	–	1	1	1	1	
Service Charges	3 465	19 723	3 335	5 319	5 532	5 781	6 128	
Audit	5 016	6 316	9 825	7 593	7 897	8 252	8 623	
Integrated Financial Systems	–	–	–	26 567	50 000	50 000	50 000	
Management Information System Vulindlela	–	14 890	31 127	29 488	40 012	42 564	45 116	
Contingent Liabilities (reinsurance liabilities)	–	–	–	1	1	1	1	
<b>Total</b>	<b>75 694</b>	<b>110 329</b>	<b>126 995</b>	<b>90 340</b>	<b>146 092</b>	<b>154 683</b>	<b>163 833</b>	
Change to 2001 Budget Estimate				(27 927)	(4 069)	(160 914)		

**Economic classification**

<b>Current</b>	<b>75 491</b>	<b>99 485</b>	<b>126 435</b>	<b>89 248</b>	<b>143 046</b>	<b>153 411</b>	<b>162 589</b>
Personnel	3 548	3 629	3 391	5 880	12 547	17 886	21 745
Transfer payments	5 016	69 473	86 755	10 511	7 898	8 253	8 624
Other current	66 927	26 383	36 289	72 855	122 601	127 272	132 220
<b>Capital</b>	<b>203</b>	<b>10 844</b>	<b>560</b>	<b>1 094</b>	<b>3 046</b>	<b>1 272</b>	<b>1 244</b>
Transfer payments	–	–	–	–	–	–	–
Acquisition of capital assets	203	10 844	560	1 094	3 046	1 272	1 244
<b>Total</b>	<b>75 694</b>	<b>110 329</b>	<b>126 995</b>	<b>90 340</b>	<b>146 092</b>	<b>154 683</b>	<b>163 833</b>

**Standard items of expenditure**

Personnel	3 548	3 629	3 391	5 880	12 547	17 886	21 745
Administrative	416	603	301	1 676	11 399	12 250	13 122
Inventories	129	220	296	582	693	730	767
Equipment	243	11 006	295	1 123	3 632	1 987	2 006
Land and buildings	-	-	-	-	-	-	-
Professional and special services	62 826	20 377	32 609	65 248	104 390	107 795	111 440
Transfer payments	5 016	69 473	86 755	10 511	7 898	8 253	8 624
Miscellaneous	3 516	5 021	3 348	5 320	5 533	5 782	6 129
<b>Total</b>	<b>75 694</b>	<b>110 329</b>	<b>126 995</b>	<b>90 340</b>	<b>146 092</b>	<b>154 683</b>	<b>163 833</b>

## **Programme 6: Provincial and local government transfers**

### **Three-year plan**

### **One-year operational plan**

#### **Strategic Goal**

To design, manage and monitor the National Treasury's own conditional transfers to provincial and local governments.

#### **Policy and strategic context**

- All grants to provincial and local government spheres from nationally raised revenue must be in terms of the annual Division of Revenue Act. The grants covered under this programme comprise a small share of the total transfers covered in the Division of Revenue Bill 2002. The conditional grants administered by National Treasury reflect important policy priorities.
- The Provincial Infrastructure Grant reflects the national priority to fund the construction and maintenance of infrastructure like provincial roads, schools, health facilities and rural development. The provincial infrastructure grant increases from 1,1 billion in 2001/02 to R2,8 billion in 2004/05.
- The two local government conditional grants are aimed at supporting budget and financial management reforms, and for any municipality committed to restructuring in order to modernise its structure and organisation. The Municipal Restructuring Grant is especially aimed at large municipalities with budgets above R300 million and where restructuring will impact on national economic stability and development.

#### **Strategic Objectives**

- Provide for the transfer and monitoring of the provincial infrastructure grant that supports accelerated infrastructure development and maintenance for roads, schools, health facilities and rural development.
- Provide for the piloting of budget and financial reforms.

## Outputs and activities

- In line with the policy to rationalise grants to the different spheres, earlier Treasury grants to provinces have been shifted: the Supplementary Grant has been phased into the provincial equitable share allocation, and an amount for hospital financial management to the national Department of Health.
- The Local Government Financial Management Grant amounts to R155 million in 2002/03, R163 million in 2003/04 and R151 million in 2004/05. Thirty pilot municipalities have started to implement the reform programme. Government intends to secure international technical expertise to assist in implementing municipal financial management reforms. Part of this grant will be used for this through an agency agreement with the Development Bank of Southern Africa.

*Grants further consolidated, fiscal flows streamlined*

*Municipal financial management reforms in 30 municipalities*

**Table 12: Key outputs, performance measures/indicators and targets for 2002/03 for Programme 6: Provincial and Local Government Transfers**

Sub-programmes	Output	Output measure/ indicator	Target
Conditional Grants to Provinces	Enhanced funding for provincial infrastructure spending	The grant has clear and transparent conditions Payments on time as per conditions Regular reporting as per each grant Targeted beneficiaries reached	100% of payments and reporting as per stated criteria and conditions
Conditional Grants to Municipalities	Funding of municipal financial management reforms and restructuring	The two grants contain clear and transparent conditions Payments on time as per conditions Regular reporting as per each grant Targeted beneficiaries reached	100% of payments and reporting as per stated criteria and conditions 30 pilots initiated

**Table 13: Expenditure estimates**  
**Programme 6: Provincial and Local Government Transfers**

Sub-programme	Expenditure outcome			Adjusted appropriation	Medium-term expenditure estimate		
	Audited	Audited	Preliminary		2002/03	2003/04	2004/05
R thousand	1998/99	1999/00	outcome 2000/01	2001/02			
Conditional Grants to Provinces	1 200 000	1 488 600	895 000	1 824 000	1 950 000	2 514 000	2 852 840
Conditional Grants to Municipalities	-	-	275 000	410 000	455 000	478 000	493 400
<b>Total</b>	<b>1 200 000</b>	<b>1 488 600</b>	<b>1 170 000</b>	<b>2 234 000</b>	<b>2 405 000</b>	<b>2 992 000</b>	<b>3 346 240</b>
Change to 2001 Budget Estimate				(723 877)	(617 000)	(70 000)	

**Economic classification**

<b>Current</b>	<b>1 200 000</b>	<b>1 488 600</b>	<b>1 170 000</b>	<b>834 000</b>	<b>455 000</b>	<b>478 000</b>	<b>493 400</b>
Personnel	-	-	-	-	-	-	-
Transfer payments	1 200 000	1 488 600	1 170 000	834 000	455 000	478 000	493 400
Other current	-	-	-	-	-	-	-
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 400 000</b>	<b>1 950 000</b>	<b>2 514 000</b>	<b>2 852 840</b>
Transfer payments	-	-	-	1 400 000	1 950 000	2 514 000	2 852 840
Acquisition of capital assets	-	-	-	-	-	-	-
<b>Total</b>	<b>1 200 000</b>	<b>1 488 600</b>	<b>1 170 000</b>	<b>2 234 000</b>	<b>2 405 000</b>	<b>2 992 000</b>	<b>3 346 240</b>

**Standard items of expenditure**

Personnel	-	-	-	-	-	-	-
Administrative	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-
Equipment	-	-	-	-	-	-	-
Land and buildings	-	-	-	-	-	-	-
Professional and special services	-	-	-	-	-	-	-
Transfer payments	1 200 000	1 488 600	1 170 000	2 234 000	2 405 000	2 992 000	3 346 240
Miscellaneous	-	-	-	-	-	-	-
<b>Total</b>	<b>1 200 000</b>	<b>1 488 600</b>	<b>1 170 000</b>	<b>2 234 000</b>	<b>2 405 000</b>	<b>2 992 000</b>	<b>3 346 240</b>

## **Programme 7: Civil and military pensions, contributions to funds and other benefits**

### **Three-year plan**

### **One-year operational plan**

#### **Strategic Goal**

To provide for payment of certain civil and military pensions and other benefits.

#### **Policy and strategic context**

The ongoing consolidation of programmes has created a good basis for aligning the budget structure to the programme's aim and objectives, and ensuring that the related functions are grouped together and in line with the provisions of the PFMA. In particular, the transfer of the payment function to Pensions Administration places the responsibility and accountability on the institution executing the administrative functions.

#### **Strategic Objectives**

- Payment of pension benefits and awards to all eligible beneficiaries, on the first working day of each month.
- Contributions to funds and other schemes by the end of the month following the month in which the expense was incurred.
- Payment of claims arising from treatment and medical appliances provided to military pensioners on receipt of claims by service providers
- Establishment of a proper risk model, adequate actuarial modelling and accurate costing.

#### **Outputs and activities**

- Payment of pension benefits and awards to all eligible beneficiaries, on the first working day of each month.
- Contributions to funds and other schemes by the end of the month following the month in which the expense was incurred and subject to timely receipt of claims in question.
- Payment of claims arising from treatment and medical appliances provided to military pensioners on receipt of claims by service providers.

*Beneficiaries paid on time as indicated in output measurement table*

**Table 14: Expenditure estimates: Key outputs, performance measures/indicators and targets for Programme 8: Fiscal Transfers**

Subprogrammes	Output	Output measure/ indicator	Target
Civil pensions and contribution to the funds	Payment of pensions benefits to eligible beneficiaries, contributions to funds and other schemes and awards to specified persons.	Payment of pension benefits and awards to 100% of eligible beneficiaries, on the first working day of each month and contributions to funds and other schemes by the end of the month following the month in which the expense were incurred (Subject to timely receipt of claims in question)	Correct payment of pension benefits to 15 713 eligible beneficiaries on the first working day of each month.  Payment of contributions to medical aid schemes in respect of 72 800 members by the end of the month following the month in which the expenses were incurred  Payment of fees in respect of 989 members to the Political Office Bearer's Pension fund by the seventh working day of each month.
Military Pensions and other benefits.	Payment of military pension benefits to eligible beneficiaries as well as payment to service providers for medical expenses in respect of claims arising from treatment and medical appliances provided to eligible beneficiaries.	Payment of pension benefits to 100% of eligible beneficiaries as well as payment of claims arising from treatment and medical appliances provided to military pensioners on receipt of claims by service providers.	Correct payment of pension benefits to 7 953 eligible beneficiaries on the first working day of each month as well as payment of military medical benefits claims on receipt of claims by the service providers.

**Table 15: Expenditure estimates**  
**Civil and Military Pensions, Contributions and Other Benefits**

Subprogramme	Expenditure outcome			Adjusted appropriation	Medium-term expenditure estimate		
	Audited 1998/99	Audited 1999/00	Preliminary outcome 2000/01		2001/02	2002/03	2003/04
R thousand							
Civil Pensions and Contributions to Funds	942 240	1 290 723	1 274 167	1 546 709	1 780 358	1 893 828	2 027 581
Military Pensions and Other Benefits	127 494	128 293	125 950	145 386	135 277	135 741	136 385
<b>Total</b>	<b>1 069 734</b>	<b>1 419 016</b>	<b>1 400 117</b>	<b>1 692 095</b>	<b>1 915 635</b>	<b>2 029 569</b>	<b>2 163 966</b>
Change to 2001 Budget Estimate				(30 000)	14 274	203 583	

**Economic classification**

<b>Current</b>	<b>1 069 734</b>	<b>1 419 016</b>	<b>1 400 117</b>	<b>1 692 095</b>	<b>1 915 635</b>	<b>2 029 569</b>	<b>2 163 966</b>
Personnel	-	-	-	-	-	-	-
Transfer payments	154 718	128 992	117 527	132 881	116 572	116 644	116 742
Other current	915 016	1 290 024	1 282 590	1 559 214	1 799 063	1 912 925	2 047 224
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Transfer payments	-	-	-	-	-	-	-
Acquisition of capital assets	-	-	-	-	-	-	-
<b>Total</b>	<b>1 069 734</b>	<b>1 419 016</b>	<b>1 400 117</b>	<b>1 692 095</b>	<b>1 915 635</b>	<b>2 029 569</b>	<b>2 163 966</b>

**Standard items of expenditure**

Personnel	-	-	-	-	-	-	-
Administrative	-	-	106	-	-	-	-
Inventories	-	-	8	-	-	-	-
Equipment	-	-	-	-	-	-	-
Land and buildings	-	-	-	-	-	-	-
Professional and special services	19 683	23 341	25 159	25 517	22 025	22 566	23 320
Transfer payments	154 718	128 992	117 527	132 881	116 572	116 644	116 742
Miscellaneous	895 333	1 266 683	1 257 317	1 533 697	1 777 038	1 890 359	2 023 904
<b>Total</b>	<b>1 069 734</b>	<b>1 419 016</b>	<b>1 400 117</b>	<b>1 692 095</b>	<b>1 915 635</b>	<b>2 029 569</b>	<b>2 163 966</b>

## **Programme 8: Fiscal transfers**

### **Three year plan**

### **One year operational plan**

#### **Strategic Goal**

To make funds available to public authorities and other institutions, where applicable in terms of various statutory provisions governing the financial relations between the government and such entities.

#### **Policy and strategic context**

- During 2001, Government actively participated in the negotiations around additions to the funding available from the World Bank and the African Development Bank at below world market rates. South Africa is the only African country that participates in the replenishment of International Development Association (IDA) and African Development Fund (ADF) resources, contributing R70 million in the most recent rounds of replenishment.
  - In August 2001, Government increased its shareholding in the African Development Bank from 1 per cent to 4,1 per cent, making it the fifth largest shareholder in the African Development Bank. South Africa is currently representing Lesotho, Malawi, Mauritius, Swaziland and Zambia on the African Development Bank's Board of Directors. The African Development Bank's lending strategy in South Africa was revised during 2000. It added capacity building in the public sector to the existing focal areas of provincial and municipal infrastructure, medium-scale enterprises in the private sector, and multilateral projects for the promotion of regional integration.
  - During October 2001, Botswana, Lesotho, Swaziland and South Africa concluded negotiations on the new Southern African Customs Union (SACU) dispensation. The countries agreed to a new institutional arrangement and a new revenue sharing formula for the common customs area. The re-negotiated SACU Agreement is expected to come into effect during the 2003 financial year. However, a number of issues still need to be resolved, such as the location of the Secretariat, a long-term arrangement for the management of the SACU revenue pool, and transitional arrangements and a mechanism for setting excise duties.
-

- The Common Monetary Area (CMA) countries - Lesotho, Namibia and Swaziland – requested that South Africa study the feasibility of the Common Monetary Area extending its membership to the rest of SADC as a way of complementing the SADC convergence programme.
- At the 2000 Annual Meeting of the World Bank and the International Monetary Fund (IMF), Government pledged to contribute R200 million to the financing of the Highly Indebted Poor Country Initiative. This will be paid in five equal instalments. In addition, Government has contributed R7,5 million to the Highly Indebted Poor Country Trust Fund for the Poverty Reduction and Growth Facility of the IMF. As part of the country's commitment under the Initiative to grant debt relief to bilateral debtors, Government has approved the total cancellation of bilateral official debt owed.
- The Financial Intelligence Centre Act (38 of 2001) provides for the formation of the Financial Intelligence Centre. The aim of the Centre is to track irregular financial practices such as money-laundering; and organised criminal activities such as drug dealing, bank heists and robbery, and white-collar crime. The Financial Intelligence Centre is a priority for Government as this type of criminal activity has the power to undermine the country's financial systems. The Centre will be established during the first quarter of 2002.

### **Strategic Objectives**

*Fiscal Transfers* aims to make funds available to public authorities and other institutions, where this is applicable under the various statutory provisions which govern the financial relations between Government and the particular authority or institution. This includes international development institutions of which Government is a member, such as the African Development Bank.

### **Outputs and activities**

Domestic transfers cover:

- The South African Revenue Service (SARS), which is responsible for collecting revenue in terms of the South African Revenue Service Act of 1997 (Act 34 of 1997)
- The Financial and Fiscal Commission (FFC), which is charged by section 220 of the Constitution and subsequent financial legislation to make recommendations on the equitable division of revenue that is raised nationally

*Effective transfers to  
respective bodies*

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- Augmenting the Secret Services Account to finance intelligence gathering and other secret services
- Establishing a Financial Intelligence Centre (FIC) to strengthen financial regulation capacity

*FIC established and staffed, with training capacity to assist organisations working with the FIC*

Foreign transfer payments are made to:

- The Highly Indebted Poor Countries (HIPC) Initiative, which provides debt relief to poor countries in terms of a bilateral agreement between the donor countries
- Lesotho and Namibia in respect of the Rand monetary area agreement
- The World Bank Group and the African Development Bank (ADB) and the African Development Fund in terms of various economic and financial agreements

*Institutional arrangements completed; transfers effected*

*Effective transfers*

*Completion of IDA & ADF replenishment.*

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**Table 16: Key outputs, performance measures/ indicators and targets for Programme 8: Fiscal Transfers**

Sub-programme	Outputs	Service delivery indicators	Targets
South African Revenue Service	Efficient tax and revenue administration with high level of compliance and customer satisfaction	As per SARS's own strategic plan	As per SARS's own strategic plan
Financial and Fiscal Commission	Advice and recommendations in terms of the FFC Act & Intergovernmental Fiscal Relations Act	As per the FFC's own strategic plan	As per the FFC's own strategic plan
Financial Intelligence Centre	Ensure compliance measures are adhered to within Accountable Institutions	Appointment of Compliance officers and introduction of compliance measures	20 % by December 2002
	Provide guidance and create awareness to combat money laundering activities	Awareness programmes – 5 Training seminars	March 2003
	Monitor and analyse financial transactions for evidence of laundering activities	Analysis of transaction activities revealing patterns of laundering activity	250 suspicious training reports (STR)
	Scoping, designing and installing IT systems	Design and Acquisition of the IT systems Implementation	By March 2003 75 per cent of the IT systems by 2005

**Table 17: Expenditure estimates**

Sub-programme	Expenditure outcome			Adjusted appropriation	Medium-term expenditure estimate		
	Audited 1998/99	Audited 1999/00	Preliminary outcome 2000/01		2002/03	2003/04	2004/05
R thousand							
Lesotho and Namibia	130 054	137 659	145 277	118 180	122 664	126 431	129 132
Development Bank of SA	-	-	-	1	1	1	1
World Bank Group	-	-	-	1	1	1	1
Highly Indebted Poor Countries Initiative	-	-	44 242	45 000	45 000	49 000	53 900
African Development Bank	40 175	33 496	32 094	97 000	133 373	129 567	154 316
SA Revenue Service	1 933 893	2 316 779	2 529 114	2 863 181	3 417 296	3 575 354	3 862 495
Financial and Fiscal Commission	3 800	5 850	7 994	9 258	9 038	9 679	10 259
Secret Services <sup>1</sup>	796 012	835 550	890 043	991 307	1 305 690	1 498 117	1 704 932
Financial Intelligence Centre	-	-	-	10 000	35 000	37 000	12 720
<b>Total</b>	<b>2 903 934</b>	<b>3 329 334</b>	<b>3 648 764</b>	<b>4 133 928</b>	<b>5 068 063</b>	<b>5 425 150</b>	<b>5 927 756</b>
Change to 2001 Budget Estimate				4 133 928	5 068 063	5 425 150	

<sup>1</sup> Amount specifically and exclusively appropriated.

#### Economic classification

<b>Current</b>	<b>2 578 435</b>	<b>3 177 666</b>	<b>3 347 239</b>	<b>3 642 030</b>	<b>4 360 147</b>	<b>4 931 361</b>	<b>5 369 945</b>
Personnel	-	-	-	-	-	-	-
Transfer payments	2 578 435	3 177 666	3 347 239	3 642 030	4 360 147	4 931 361	5 369 945
Other current	-	-	-	-	-	-	-
<b>Capital</b>	<b>325 499</b>	<b>151 668</b>	<b>301 525</b>	<b>491 898</b>	<b>707 916</b>	<b>493 789</b>	<b>557 811</b>
Transfer payments	325 499	151 668	301 525	491 898	707 916	493 789	557 811
Acquisition of capital assets	-	-	-	-	-	-	-
<b>Total</b>	<b>2 903 934</b>	<b>3 329 334</b>	<b>3 648 764</b>	<b>4 133 928</b>	<b>5 068 063</b>	<b>5 425 150</b>	<b>5 927 756</b>

#### Standard items of expenditure

Personnel	-	-	-	-	-	-	-
Administrative	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-
Equipment	-	-	-	-	-	-	-
Land and buildings	-	-	-	-	-	-	-
Professional and special services	-	-	-	-	-	-	-
Transfer payments	2 903 934	3 329 334	3 648 764	4 133 928	5 068 063	5 425 150	5 927 756
Miscellaneous	-	-	-	-	-	-	-
<b>Total</b>	<b>2 903 934</b>	<b>3 329 334</b>	<b>3 648 764</b>	<b>4 133 928</b>	<b>5 068 063</b>	<b>5 425 150</b>	<b>5 927 756</b>

## Part C: Public entities

A number of entities report to the Minister of Finance, but with governance arrangements that facilitate an arm's-length relationship. This allows these institutions to perform their professional functions with the autonomy required to meet their mandates, while their links to the ministry enable them to develop strategic alignment with Government's policy goals.

Given the nature of these relationships, the detailed plans of these entities are not presented here: each would in fact produce and work according to their own plans. It is however necessary to reflect briefly the broad approach of each and its relevance to the National Treasury's business.

## **South African Revenue Service**

The South African Revenue Service (SARS) has continued to make significant progress in enhancing its administrative capacity in order to become a world class tax and customs administration that is capable of effectively responding to the challenges of globalisation. Tax collections in 2001/ 02 are estimated to exceed the original budget estimate by 6,8percent (4,6 percent of the officially revised estimate), attributable in part to revenue collection and enforcement.

In 2001, the SARS implemented its most expansive transformation programme to date, Siyakha, which addresses the overhaul of the operational infrastructure through business process re-engineering. The launch of the pilot programme in KwaZulu-Natal saw the streamlining of activities to enhance taxpayer service delivery through the establishment of a Taxpayer Service Centre, a Processing Centre and a Compliance Centre. Other achievements included:

- Introduction of e-filing and payments
- Implementation of CGT and the movement from source to residence basis of taxation
- Adoption of a risk management approach to compliance
- Registration with the South Africa Qualifications Authority (SAQA) to enhance SARS skills capacity through focused and accredited training and development
- Sustained revenue collection in excess of budget target
- Unqualified audit report on own accounts.

The roll-out of the Siyakha programme will continue during 2002. This underpins efforts by SARS to consistently exceed collection targets, improve border controls and facilitate international trade. A further key initiative will be the measurement of the tax gap and adoption of strategies to reduce the gap. This exercise will be aligned with a systematic approach to understanding and broadening the tax base in order to sustain a competitive tax environment.

## **The Financial and Fiscal Commission**

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

It is an advisory body and has the mandate to make recommendations on financial and fiscal matters to Parliament, the provincial legislatures, and any other institutions of government when necessary. The advice and recommendations concern issues such as fiscal policies and allocations for all spheres of government, taxes which provinces intend to impose and borrowing by local and provincial government. Additional responsibilities could be considered in determining fiscal allocations.

## **The Development Bank of Southern Africa**

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

The Bank supports economic development, growth, human development and institutional capacity building in Southern Africa, primarily through infrastructure investments. As one of five national development finance institutions tasked with promoting development, the DBSA supplements the flow of private and public funds by forming partnerships, with both the public and private sector, for infrastructure development projects.

## **Financial Services Board**

The Financial Services Board (FSB) is a statutory body in terms of the Financial Services Board Act, 97 of 1990. It supervises the control over the activities of non-banking financial services and acts in an advisory capacity to the Minister of Finance. The Board is financed by the financial services industry itself, with no contribution from government.

The FSB supervises such institutions and services in terms of 16 Parliamentary Acts which entrust regulatory functions to the Registrar of Long-and Short-term Insurance, Friendly Societies, Pension Funds, Unit Trust Companies, Stock Exchanges and Financial Markets. Those functions resort in the office of the Executive Officer acting with other members of the executive and heads of the various departments. Included in such functions is regulatory control over Insider Trading as well as the participation bonds industry, certain trust and depository institutions and central security depositories responsible for the safe custody of securities. The FSB is also responsible for the financial supervision of the Road Accident Fund. Excluded from the FSB's responsibilities are some areas involving listing requirements or public issues and takeovers and mergers.

## **Public Investment Commissioners**

The Public Investment Commissioners (PIC) is a statutory body governed in terms of the Public Investment Commissioners Act, No 45 of 1984 as amended. The Minister is responsible for appointing the Board, and the Board for oversight of 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 an administrative agency of Government investing all deposits in gilts and semi-gilts. This was extended to include equities and property in 1995.