

FINANCE

Introduction

The vision of the Department is to act as an agent of change with a view to achieving maximum wellbeing. The mechanism which the Department has at its disposal to achieve its vision, is the continuous evolution of fiscal policy, and consequent thereto, the better targeting of limited resources and the sharper monitoring of the results of the Province's investments.

The mission of the Department of Finance is to obtain financial and supportive means and to utilise these to the optimum advantage of the whole community.

The Department plays a leading role in the Province, its main function being to allocate scarce financial resources to departments, and to make sure that trade offs between uses for the scarce resources are optimal and expenditure policy changes are consistent with government's fiscal norms and policy objectives.

Capacity Building

To meet challenges the Department is committed to building capacity by improving its human resource capacity. Expertise is being built in the fields of fiscal policy-making, budgeting, revenue generation, procurement and provisioning, financial and related systems and accounting practices. Human Resource Development (HRD) within Finance has been catered for by setting aside R1,916 million in the current financial year (2002/03) under Programme 3. The restructuring of functionalities and responsibilities in the Department of Finance is currently taking place. The aim is, among other things, to increase the depth of human resource capacity over time without substantially increasing the number of personnel. The restructuring commenced in early August 2002 and should be finalised by June 2003.

The amended organisational structures should –

- facilitate the objectives of the organisation;
- contribute positively to organisational performance;
- guide the behaviour of individuals and groups to achieve high levels of production, efficiency, satisfaction, quality, flexibility and development, and
- be flatter and more receptive to the ever-changing needs and expectations of stakeholders.

The restructuring will affect personnel expenditure as the total establishment will be amended. It is vital to enable the Department to effectively act as an agent for change which will achieve specific socio-economic objectives, foster the

attainment of value for money spent and safeguard and promote effective utilisation of provincial assets. The ultimate challenge would be to design an organisation that directs people's energies towards performance and outcomes.

Expenditure trends

Between 1997/98 and 2001/02 average actual expenditure increased by 10.4%. The projected average real growth between 2001/02 and 2004/05 is estimated to follow the same pattern, measuring 10.8%. Overall expenditure has grown from R32,6 million in 1997/98 to R65,9 million in 2004/05.

Table 1: Expenditure 1997/98 to 2004/05

PROGRAMME	Actual					Voted	Medium-term estimate	
	1997/98 R'000	1998/99 R'000	1999/00 R'000	2000/01 R'000	2001/02 R'000		2002/03 R'000	2003/04 R'000
1. Administration	4407	4770	9641	13259	17685	21902	23311	25181
2. Budgets	10301	13785	11983	11960	14874	19784	19456	20140
3. Provincial Accountant - General Services	17920	15272	15235	12058	15905	18549	19855	20592
TOTAL	32628	33827	36859	37277	48464	60235	62622	65913

Proportion of Programme to Budget PROGRAMME	Actual					Voted	Medium-term estimate	
	1997/98 R'000	1998/99 R'000	1999/00 R'000	2000/01 R'000	2001/02 R'000		2002/03 R'000	2003/04 R'000
1. Administration	13,51	14,10	26,16	35,57	36,49	36,31	37,22	38,20
2. Budgets	31,57	40,75	32,51	32,08	30,69	32,84	31,07	30,56
3. Provincial Accountant - General Services	54,92	45,15	41,33	32,35	32,82	33,93	30,75	31,24
TOTAL	100	100	100	100	100	100	100	100

The Department has three programmes, Administration, Budgets and Provincial Accountant-General Services. Overtime, since 1997/98, the division of funding between the three programmes has become more equal, with Administration's proportion of expenditure growing and that of Provincial Accountant-General Services shrinking. The record shows that since 2000/01 the three programmes have each received about one third of the budget.

Programme 1: Administration

The aim of this programme is to conduct overall management and administrative support services for the Department. It consists of three sub-programmes, namely Office of the Provincial Minister, Corporate Affairs and Human Resources Development and Training.

From a low base the budget of this Programme has grown substantially since the Department became responsible for its own human resource management,

provisioning and financial management and established a directorate for its corporate affairs on 1 April 2002. Furthermore, a Chief Financial Officer (CFO) was appointed with effect from 1 February 2001, which also necessitated the appointment of additional personnel in that structure.

Average real expenditure growth on the Programme measured 41.5% for the period 1997/98 to 2001/02. This growth trend is projected to slow dramatically between 2001/02 and 2004/05 to 12.3%.

Programme 2: Budgets

The aim of this programme is to prepare provincial budgets, formulate fiscal and procurement policies, promote and enforce transparency and effective management and control and evaluate trends with respect to the revenue expenditure of provincial departments, relevant municipalities and assigned provincial public entities. The programme consists of six sub-programmes, namely Fiscal Services, Revenue Management, Provision for the Western Cape Gambling and Racing Board, Expenditure Control, Procurement Management and provision for the Western Cape Provincial Tender Board.

Expenditure on this programme has increased from R10,3 million in 1997/98 to R20,2 million budgeted for 2004/05. This is an average real rate of 9,6% for the period 1997/98 to 2001/02 and a slightly bigger real growth for 2001/02 to 2004/05 at 10,7%.

The sub-programme, **Fiscal Services**, apart from being responsible for the formulation and implementation of the fiscal policy and co-ordinating and preparing the annual budget of the Province, is also responsible for putting together a socio-economic database that is essential for drafting the medium-term fiscal policy. The database will ensure that fiscal policy is in tune with socio-economic realities in the Province and will provide a more accurate analysis of the areas of greatest need and improve the tracking of outcomes.

Fiscal Service's key service delivery goals include:

- Determination and evaluation of provincial socio-economic characteristics and needs within the national context;
- Development and tracking of key service delivery outcome indicators;
- Determination of the gap between actual delivery and desired socio-economic outcomes;
- Consequent determination of spending priorities.

Revenue Management is responsible for enhancing the revenue forecasts and managing provincial own revenue, and lately also exploring financing via capital markets with the focus specifically on the maximisation of own revenue source. The limit to current financial resources, particularly for infrastructure, can be alleviated by ensuring additional revenue is generated. This can be done by improving own revenue collection sourcing efficiency and reducing and collecting long outstanding debt.

In order to improve the generation of own revenue the implementation of a fuel levy for 2004/05 is being explored. Active participation in the formulation of legislation regarding Public -Private Partnerships (PPPs) as a potential source of finance can be derived from the enactment of such legislation. However, the function has been shifted to Procurement Management as part of redesigning the procurement and provisioning process for growth and service in the Province.

The function of the **Western Cape Gambling and Racing Board** is to control all gambling, racing and activities incidental thereto in the Western Cape. The Board is responsible for collecting all taxes and fees in this regard, with the Directorate Revenue Management monitoring such receipts.

Gambling and racing is a growing source of provincial own revenue. As the Board becomes more financially independent, the allocations to it decrease. Allocations for the future financial years are R7 million in 2002/03, R6,855 million in 2003/04 and R2,585 million in 2004/05.

Expenditure Control is moving towards a more prominent role in assessing provincial expenditure for efficacy. The real issue is not so much about the quantum of funds allocated to various departments, but rather about desired services being tailored to the real needs of the people and then actually being delivered. To assist in the implementation of the new processes, contractors have been engaged to guide the analysis of data and the drafting of reports, and thereby transfer capacity to the staff of the Directorate. Non-financial information is thus being incorporated to cultivate the understanding that numbers have a meaning, directly or indirectly reflecting the standard of service delivery. Information gathered regarding failures or areas where improvement is needed will be used to inform subsequent rounds of fiscal policy formulation.

Procurement management renders an administrative and procurement service to and on behalf of the Western Cape Provincial Tender Board. Procurement reform has been implemented to ascertain progress in achieving the Province's preferential procurement ideals. To address imbalances of the past a larger number of contracts are being awarded to historically disadvantaged enterprises.

The **Western Cape Provincial Tender Board** is responsible for the selection and approval of large tenders. In time the functions of the Board will be shifted towards establishing procurement processes and systems and performing a more effective monitoring and advisory function, and departments have greater delegated power to operate within. Much work in this regard was done in close collaboration with the National Treasury and other provincial treasuries. The Board is currently supported by a Secretariat which resides under Procurement Management.

Programme 3: Provincial Accountant - General Services

During 2000/01 the Provincial Treasury, which is part of the Finance vote, was restructured to include the Office of the Provincial Accountant - General in order to comply with the requirements of the Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA).

The programme consists of two sub-programmes, namely Systems Control Services and Accounting and Regulatory Control Services.

Systems control services deals with the development and roll-out of the various financial management systems such as Basic Accounting System (BAS), Enterprise Application Solutions (EAS), Vulindlela, Logis (Provisioning System) and the Loss Control System. It also maintains the Financial Management System (FMS) and Persal (Personnel Salary System) which tie in with national databases.

Functional financial and provisioning training is also provided for under this programme. One of the future objectives in this regard is to establish a School for Public Accounting and Economic Studies. The purpose of the School will be to improve the quality of human resource capacity by providing competency based education and training courses accredited by the National Qualification and Education Board. A position paper in this regard is to be completed by 31 March 2003. Thereafter, evaluation will take place to determine how the School can be implemented and how it will be eligible to attend.

The sub-programme **Accounting and regulatory control services** compiles, issues, implements and maintains norms and standards within the legislative framework in provincial departments, and ensures compliance therewith. This is done by exercising overall accounting control, providing regulatory services and formulating and rendering advice on policies, power and instructions in terms of the Public Finance Management Act and other applicable legislation.

Except for three departments, Community Safety, Provincial Administration: Western Cape and the former Environmental and Cultural Affairs and Sport, accounting services were decentralising in 2001/02. The function was decentralised to the remaining departments in April 2002.

Economic Classification of Expenditure

Table 2 reflects the economic classification of expenditure. Current expenditure accounts for in excess of 90% of expenditure, leaving less than 10% for spending on capital assets.

Personnel expenditure makes up the major part of the current expenditure and has been growing over time since 1997/98, except for the current financial year. Transfer Payments as a part of current expenditure has diminished in the period under review.

After Personnel Expenditure the category Other Current Expenditure accounts for the biggest part of the budget. Expenditure in this category includes administration, stores and livestock, equipment, and miscellaneous expenditure.

Table 2: Economic Classification 1997/98 to 2004/05

Economic Classification	Actual					Voted	Medium-term estimate	
	1997/98 R'000	1998/99 R'000	1999/00 R'000	2000/01 R'000	2001/02 R'000	2002/03 R'000	2003/04 R'000	2004/05 R'000
Current Expenditure	30105	32958	36538	36629	47151	59463	57522	60513
Personnel expenditure	13334	14422	20 372	21353	28407	35295	37005	39035
Transfer payments	5465	10341	6000	5300	6000	7276	7140	2900
Other current expenditure	11306	8195	10166	9976	12744	16892	13377	18578
Capital Expenditure	2523	869	321	648	1313	772	5100	5400
Transfer payments	1921	0	0	0	0	0	0	0
Other capital expenditure	602	869	321	648	1313	772	5100	5400
Total	32628	33827	36859	37277	48464	60235	62622	65913

Proportion to Budget	Actual					Voted	Medium-term estimate	
	1997/98 R'000	1998/99 R'000	1999/00 R'000	2000/01 R'000	2001/02 R'000	2002/03 R'000	2003/04 R'000	2004/05 R'000
Current Expenditure	92 27	97 43	99 13	98 26	97 29	98 72	91 86	91 81
Personnel expenditure	44 29	43 76	55 76	58 30	60 25	59 36	64 33	64 51
Transfer payments	18 15	31 38	16 42	14 47	12 73	12 24	12 41	4 79
Other current expenditure	37 56	24 86	27 82	27 24	27 03	28 41	23 26	30 70
Capital Expenditure	7 73	2 57	0 87	1 74	2 71	1 28	8 14	8 19
Transfer payments	76 14	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Other capital expenditure	23 86	100 00	100 00	100 00	100 00	100 00	100 00	100 00
Total	100	100						

Service delivery and performance measures

It is the aim of the Department to achieve the following:

- **Fiscal policy framework**, that is the structure and competencies that can obtain and put together those socio-economic and services deliverable variables that would dictate the revenue and expenditure imperatives to be targeted.
- **Budget management**, meaning tying together the three phases of budgeting : Alignment of the proposed allocations with the desired outcome of the fiscal policy process, measuring post-budget allocation effectiveness and efficiency of resource expenditure.

- **Asset management** , covering the different stages of supply chain management (i.e. the formation of a provincial treasury equivalent of the mooted supply chain management office), provincial public/private partnerships, cash management and financial systems management, all from a treasury perspective.
- **Liability management** , dealing with debtor management practices, management of creditors, budget pressures, contingencies and *force majeure* .
- **Accounting**, ensuring both nominal compliance and consolidated financial statements, and promoting substantive/interpretative (accrual -based) accounting standards and practices.
- **Fiscal discipline maintenance** , which euphemistically means perfecting and maintaining the basics in fiscal governance.
- **Revenue collection and management** , ensuring the maximising of the Province's revenue and borrowing (for capex) potential, but without causing measurable economic harm.
- **Capacity building** , focusing on both functional (perfecting the basics) and substantive financial management training for all finance staff in the Province.
- **Corporate Services/Affairs** , a ll the issues, including the chief financial officer, human resource management, human resource development, communication, document management services, which ensure efficient management of the treasury as a department.

Conclusion

There is a sharp increase from actual expenditure in 2001/02 to the 2002/03 allocation. Over the medium term the allocations remain fairly constant in nominal terms, but decline in real terms.

Although the Department intends to restructure within its current resource envelope in order to promote and enforce transparent and effective financial governance, it is questionable whether the current funding level will match the envisaged rollof a provincial treasury.